

COMPREHENSIVE ANNUAL
FINANCIAL
REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31,

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City of Kirkland, Washington

Comprehensive Annual Financial Report



For the Fiscal Year Ended December 31, 2012

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Director of Finance and Administration

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Cover Design and Layout by



**City of Kirkland, Washington
Comprehensive Annual Financial Report
For the Year ended December 31, 2012**

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Introductory Section

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kirkland
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moirrell

President

Jeffrey R. Enow

Executive Director

CITY OF KIRKLAND

CITY COUNCIL

Mayor	Joan McBride
Deputy Mayor	Doreen Marchione
Council Members	David Asher
	Toby Nixon
	Bob Sternoff
	Penny Sweet
	Amy Whalen

ADMINISTRATIVE STAFF

CITY MANAGER'S OFFICE

City Manager	Kurt Triplett
Deputy City Manager	Marilynne Beard

MUNICIPAL COURT

Judge	Michael Lambo
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CITY ATTORNEY'S OFFICE

City Attorney	Robin Jenkinson
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FINANCE AND ADMINISTRATION

Director	Tracey Dunlap
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FIRE AND BUILDING

Fire Chief	Kevin Nalder
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HUMAN RESOURCES & PERFORMANCE MANAGEMENT

Director	James Lopez
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INFORMATION TECHNOLOGY

Chief Information Officer	Brenda Cooper
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PARKS & COMMUNITY SERVICES

Director	Jennifer Schroder
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PLANNING & COMMUNITY DEVELOPMENT

Director	Eric Shields
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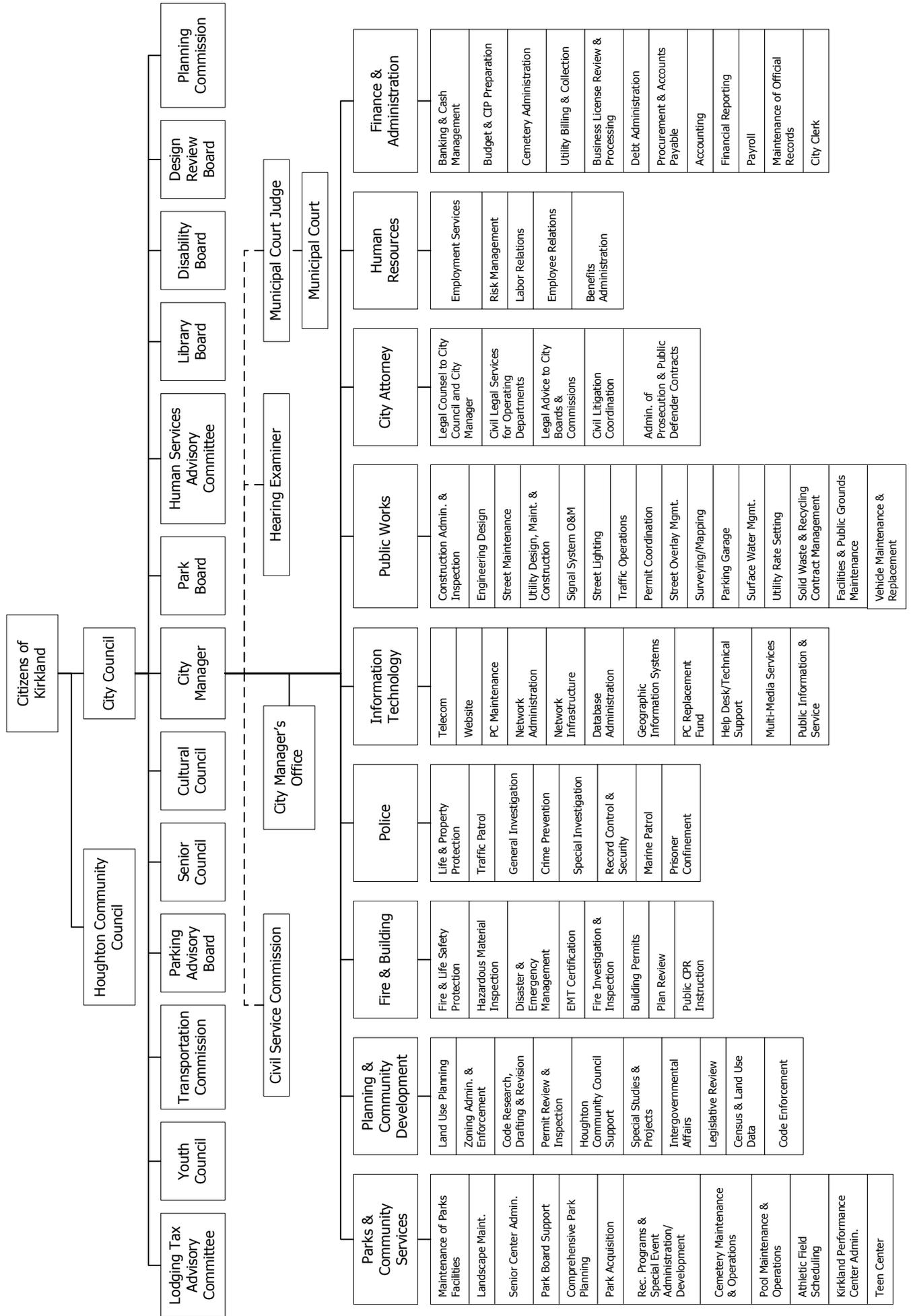
POLICE

Police Chief	Eric Olsen
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PUBLIC WORKS

Director	Ray Steiger
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CITY OF KIRKLAND





June 21, 2013

Citizens of Kirkland
Honorable Mayor
Members of the City Council

State law requires that every general purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended December 31, 2012.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor's Office has issued an unqualified ("clean") opinion on the City of Kirkland's financial statements for the year ended December 31, 2012. The auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

By way of background, the City of Kirkland is located on the eastern shore of Lake Washington. It is a suburban city, surrounded by other suburban cities and pockets of unincorporated King County. The City is near several major transportation routes including Interstate 405, State Route 520, and Interstate 5. These routes connect the City economically and socially to the greater Seattle area.

At the time of incorporation in 1905, the City of Kirkland's population was approximately 530. The current estimated population is 81,480. Kirkland is the twelfth largest city in the State of Washington and the sixth largest in King County.

Since its incorporation, Kirkland has grown in geographic size to eighteen square miles. This growth occurred primarily through the consolidation of the cities of Houghton and Kirkland in 1968

and the annexations of Rose Hill and Juanita in 1988. Kirkland grew again through annexation of the Juanita, Finn Hill, and Kingsgate neighborhoods in 2011, increasing population by over 30,000 residents and 100 lane miles of streets.

Kirkland operates under a Council-Manager form of government. The City Council is the policy-making branch of Kirkland's government and consists of seven members elected at large to staggered, four-year terms. The Mayor is elected from within the Council. The City Council is supported by several advisory boards and commissions and the City Manager. The City Manager is appointed by the City Council and serves as the professional administrator of the organization, managing its day-to-day activities.

The City government offers a full range of municipal services which are provided by ten operating departments. In 2012, the City boasted forty five parks, including eleven that are located on the waterfront, as well as a community center, senior center, swimming pool, and teen center. The broad range of recreational facilities provides year-round services for citizens of all ages.

The City prepares a biennial budget which is adopted by the City Council by the end of each even numbered year, given that Washington State law requires that the first year of a biennial budget be an odd numbered year. This budget serves as the foundation for the City of Kirkland's financial planning and control and provides information by fund, function (e.g., public safety), and department (e.g., police). Budget adjustments are brought forward for approval by the City Council periodically during the biennium.

Local Economy

Washington State's economy continues to slightly outperform the national economy. While Washington is not immune from the uncertainty in the national and global economies related to U.S. budget deliberations and Eurozone weakness, the Washington State Economic and Revenue Forecast Council expects the Washington economy to continue to grow slowly, with employment rising in most sectors. Kirkland's unemployment rate in December 2012 was 5.3%, well below the King County and national rates. In addition, Kirkland's office vacancy rate was 8.2%, a significant improvement from the level seen during the recession. Development activity in Kirkland is continuing to recover, with major projects occurring throughout the City. The State Legislature continues to struggle to finalize a balanced state budget, but current proposals are expected to have a minimal impact on the City.

Additional discussion of economic factors can be found in the Management Discussion and Analysis.

Long Term Financial Planning

Given the large annexation that occurred in 2011, the City is in the process of updating its Comprehensive Plan and related plans such as the Parks, Recreation, and Open Space Plan and the Surface Water Master Plan, to incorporate the service needs of the larger population and geographic area of the City. Similarly, the City is undertaking strategic planning efforts, such as the Fire Strategic Plan and the Development Services Organizational Study to identify needs into

the future. These efforts involve significant community involvement and are expected to continue through 2014. As has been the case in the past, the plans are expected to identify needs that the City may not be able to fully implement because financial resources and staff continue to be constrained.

The fundamental challenge for many jurisdictions in Washington, including Kirkland, is the ongoing ability for revenue growth to keep pace with the cost of doing business. With wage and benefit costs increasing faster than inflation, the revenue base cannot keep pace with costs given tax limitation initiatives enacted in the state in past years and the economic conditions. To help address this structural imbalance, the City pursued voter-approved tax increases in 2012 to help fund enhanced levels of service in roads and parks, which were approved in November 2012. While this approach helps maintain financial stability, the City's financial picture remains and will continue to be a primary topic for evaluation and decision-making looking forward.

Overall, the local economy has improved in 2012, but the City has continued to take action to control costs. An assessment of actual service requirements in the areas annexed in 2011 is made before filling the remaining vacant positions. The City is continuing to develop partnership initiatives with employees to achieve sustainability of wages and benefits to further its goal of financial stability.

Sales tax performance improved in 2012 over 2011 due to receipt of a full year's revenues from the areas annexed in mid-2011 and improved economic conditions. An important part of the annexation financial plan continues to be the ten-year State annexation sales tax credit, which is expected to generate at least \$3.4 million per year for the City for the first ten years following the annexation effective date. The City has already taken several financial actions that will help offset the impact of the expiration of the annexation sales tax credit in 2021 and has begun discussions to plan for how to fully fund the final gap.

Developing ongoing business activity is critical to ensure the City's financial health. Opportunities for growth in ongoing revenue exist from the potential redevelopment of Totem Lake Mall and Park Place, as well as redevelopment in downtown. In March 2013, Google announced that it is doubling the size of its campus in Kirkland, creating room to hire 1,000 more employees. The City continues to pursue economic development opportunities, focusing on adding to its high technology employment base. The City's focus on economic development is discussed further under "Major Initiatives" below.

Relevant Financial Policies

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Kirkland. Therefore, the establishment and maintenance of wise fiscal policies enables City officials to protect public interests and ensure public trust. These policies have been established to provide general fiscal guidelines and are intended to provide sound direction in the management of the City's financial affairs. They address topics that include the operating and enterprise fund budgets, revenues and expenditures, cash management and investment, accounting, financial reporting and auditing, reserve and fund balance, debt management, and capital improvements.

One of the key elements in revenue and expenditure planning is to identify revenues of a limited or indefinite term to ensure that no ongoing service program is lost when such revenues are reduced or discontinued. To address this variability, the City budgets sales tax revenues on a one-year lag, monitoring trends on a monthly basis, particularly in the sectors influenced by development activity. As part of the budget process, significant one-time receipts can be set aside as a funding source for non-recurring expenditures. During economic downturns, specific reserve elements are available to help bridge revenue declines, as has been the case in the past few years. As economic conditions improve, the replenishment of reserves is a high priority and the 2013-2014 budget continues the replenishment of reserves that began in the 2011-2012 budget. The City maintained its AAA credit rating as a result of its financial policies and practices, reserves, and the strength of the local economy and related demographics.

Major Initiatives

The City Council's adopted work program for the 2013-2014 biennium contains a number of major initiatives related to the City's priority goals, including:

- Revitalize the Totem Lake Business District through continued implementation of the Totem Lake Action Plan to further the goals of Financial Stability and Economic Development;
- Partner with the private sector to attract tenants to Kirkland's major business districts to further the goal of Economic Development;
- Reenergize neighborhoods through partnerships on capital project implementation and plan updates while clarifying neighborhood roles in future planning and transportation efforts to further the goal of Neighborhoods;
- Complete the Comprehensive Plan update and incorporate new neighborhoods into all planning documents to further the goals of Balanced Transportation, Parks and Recreation, Diverse Housing, Economic Development, Dependable Infrastructure and Neighborhoods;
- Implement the Development Services Organizational Review recommendations and simplify the Zoning Code to further the goals of Economic Development and Neighborhoods;
- Develop a City-wide Multimodal Transportation Master Plan to further the goals of Economic Development Neighborhoods, Balanced Transportation, Dependable Infrastructure;
- Achieve Kirkland's adopted legislative agendas, with emphasis on securing transportation revenues and funding for the NE 132nd Street ramps to I-405 to further the goals of Balanced Transportation and Dependable Infrastructure;
- Complete the Cross Kirkland Corridor Master Plan and construction of the Interim Trail to further the goals of Economic Development, Parks, Neighborhoods and Balanced Transportation;
- Develop a cost effective 2015-2016 Budget that maintains Kirkland's AAA credit rating and implements an improved performance management system that delivers desired outcomes to further the goal of Financial Stability;
- Continue partnership initiatives with employees to achieve sustainability of wages and benefits to further the goal of Financial Stability;
- Complete construction and occupy the Public Safety Building to further the goal of Public Safety;

- Continue implementation of the Fire Strategic Plan recommendations, including evaluation of a Regional Fire Authority and resolution of a consolidated Finn Hill Fire Station to further the goal of Public Safety.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a **Certificate of Achievement for Excellence** in Financial Reporting to the City of Kirkland for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2011. This was the eighth consecutive year that the government has applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City has received the **Association of Public Treasurers of the United States and Canada Certification of Excellence** for its Debt Policy and the **Certification of Excellence from the Washington Municipal Treasurer's Association** for its Investment Policy signifying that the policies meet the standards established by those organizations.

This report was prepared by the City's Department of Finance and Administration. The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the department. We wish to express appreciation to the staff and other personnel from various departments who assisted in its preparation. Credit also must be given to the City Council for their continued leadership and support of strong fiscal planning and conducting the financial operations of the City in a prudent, safe, and responsible manner.

Respectfully submitted,



Kurt Triplett
City Manager



Tracey Dunlap
Director of Finance and Administration

Financial Section



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

June 21, 2013

Mayor and City Council
City of Kirkland
Kirkland, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kirkland, King County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kirkland, King County, Washington, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the General Fund and Excise Tax Capital Improvement Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Note 1, during the year ended December 31, 2012, the City has implemented the Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 31, information on postemployment benefits other than pensions and pension trust fund information on page 103 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying information listed as Fund Financial Statements and Schedules and Capital Assets on pages 105 through 131 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in

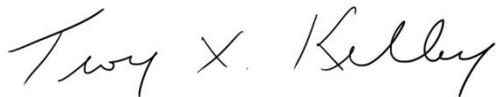
the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated June 21, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the City's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in black ink and is positioned above the typed name.

TROY KELLEY
STATE AUDITOR



Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kirkland, we offer readers of the City of Kirkland's financial statements this narrative overview and analysis of the financial activities of the City of Kirkland for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the additional information provided in the preceding letter of transmittal.

Financial Highlights

- The assets and deferred outflows of resources of the City of Kirkland exceeded its liabilities at the close of the most recent fiscal year by \$1.041 billion. Of this amount, \$914.7 million is invested in capital assets such as streets, land, and buildings. The remainder is primarily cash and investments, consisting of \$52 million that is restricted by legislation or bond covenants for tourism, parks and recreation, transportation, capital projects, and debt service and \$74 million that is unrestricted net position and therefore available to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$22.8 million in 2012. The increase in Business-type activities was \$5.7 million, while the Governmental activities increased by \$17.1 million.
- At the end of the most recent fiscal year, the City's governmental funds reported combined ending fund balances of \$91.5 million, an increase of \$3.3 million compared to the prior year. Unspent bond proceeds of \$27 million in the capital project funds comprise 56 percent of the ending capital related fund balance. Over \$47 million of the total fund balance is restricted for use based on bond covenants or enabling legislation. Another \$4 million has been committed for specific purposes by the City Council, and another \$22.8 million has been designated by the City Manager for assigned activities. Almost \$17 million remains unassigned because no limitation of use has been formalized.
- Total outstanding debt, including Public Works trust fund loans, at year-end was \$49.8 million.

Overview of the Financial Statements

This section of management's discussion and analysis is intended to introduce and explain the City's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, other supplementary information is also contained in this report.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for *governmental activities* and *business-type activities*. Governmental activities of the City include general government (legislative, executive, finance, legal services, information technology, facilities maintenance, health benefits, fleet services, city clerk, and human resources),

public safety (police and fire), judicial, physical environment, economic environment, transportation, human services, and culture and recreation. The City's business-type activities are limited to water/sewer, surface water, and solid waste utilities. Governmental activities are primarily supported by taxes, charges for services, and grants, while business-type activities are self-supporting through user fees and charges.

The **statement of net position** presents information on all of the City of Kirkland's assets, liabilities, and deferred inflows/outflows of resources, highlighting the difference between the two as *net position*. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of the city's overall financial health.

The **statement of activities** presents information showing how the City's net position changed during the most recent fiscal year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activities on this statement are reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses, even though no cash has changed hands.

The government-wide financial statements can be found immediately following this section (i.e. Management's Discussion and Analysis) of the annual financial report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are often set up in accordance with special regulations, restrictions, or limitations. The City of Kirkland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The annual financial report includes individual fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type. All of the City of Kirkland's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for those functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements and immediate fiscal health.

Comparing the governmental fund financial statements with similar information presented for *governmental activities* in the government-wide financial statements can help the reader better understand the long-term impact of the City's near-term financing decisions. To assist in this comparison, reconciliations between the governmental fund financial statements and the government-wide financial statements are included with the governmental fund *balance sheet* and the governmental fund *statement of revenues, expenditures, and changes in fund balances*.

The City of Kirkland maintains ten individual governmental funds. The City's four major governmental funds—the general fund, the excise tax capital improvement fund, the general capital projects fund, and the transportation capital projects fund—are presented separately in the governmental fund *balance sheet* and the governmental fund *statement of revenues, expenditures, and changes in fund balances* in the Basic Financial Statements section of this report. The remaining governmental funds are combined into a single column labeled *other governmental funds*. Individual fund data for each of the other governmental funds can be found in the *combining statements*, which are presented in the Fund Financial Statements and Schedules section of this report.

The City maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level, on a cash basis, and according to state law. Two funds are required to be tracked separately by State Statute, Street and Contingency Funds, but are consolidated for financial reporting. They are budgeted at the fund level to capture the activity as required. Budgetary comparison statements are presented for the general and excise tax improvement fund in the Basic Financial Statements section of this report. Budgetary comparison schedules for the other budgeted funds are included in the Fund Financial Statements and Schedules section of this report.

Two types of **proprietary funds** are used by the City: *enterprise funds* and *internal service funds*. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water/sewer utility, surface water utility, and solid waste utility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, management of information systems, self insured health benefits, and maintenance of City facilities. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the *governmental activities* column of the government-wide statement of net position.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City's water/sewer utility, surface water utility, and solid waste utility are presented in separate columns in the proprietary fund financial statements; whereas the internal service funds are combined into a single column. The proprietary fund financial statements are included in the Basic Financial Statements section of this report. Individual fund data for the internal service funds can be found in the *combining statements*, which are presented in the Fund Financial Statements and Schedules section of this report.

Fiduciary funds are used to account for resources held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not reflected in the government-wide financial statements, because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has only one fiduciary fund, which is the firefighter's pension fund. It is presented in the Basic Financial Statements section of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements. The notes are located in the Basic Financial Statements section of this report immediately following the fiduciary fund financial statements.

Other Information

The combining statements for other governmental funds and internal service funds are presented immediately following the notes to the financial statements.

Government - Wide Financial Analysis

Statement of Net Position

The statement of net position can serve as a useful indicator of the city's financial position. The City of Kirkland's assets and deferred outflows of resources exceeded liabilities and inflows of resources by \$1,041,097,175 at December 31, 2012. Following is a condensed version of the government-wide statement of net position (expressed in millions of dollars) comparing fiscal year 2012 to 2011.

City of Kirkland's Net Position (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$122.34	\$116.24	\$47.61	\$45.17	\$169.95	\$161.41
Capital assets, net of accumulated depreciation	796.01	787.07	141.43	139.39	937.44	926.46
Total assets	918.35	903.31	189.04	184.56	1,107.39	1,087.87
Total deferred outflows of resources	0.36	-	-	-	0.36	-
Long-term liabilities	47.46	49.77	2.25	3.09	49.71	52.86
Other liabilities	11.22	10.75	5.54	5.96	16.76	16.71
Total liabilities	58.68	60.52	7.79	9.05	66.47	69.57
Total deferred inflows of resources	0.18	-	-	-	0.18	-
Net position:						
Net investment in capital assets	776.31	765.63	138.36	135.17	914.67	900.80
Restricted	51.72	56.18	0.49	0.82	52.21	57.00
Unrestricted	31.82	20.98	42.40	39.52	74.22	60.50
Total net position	\$859.85	\$842.79	\$181.25	\$175.51	\$1,041.10	\$1,018.30

As of the end of 2012, the largest component of the City's total net assets at \$914.7 million, or 88 percent, is its investment in capital assets (e.g., land, buildings, streets, parks, water/sewer and surface water infrastructure, and machinery and equipment) less any related outstanding debt issued to acquire those assets. These capital assets are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities.

Roughly \$52 million of the City's net position is subject to restrictions. The largest balance of restricted funds are for capital improvements. A total of \$46 million in two Capital Projects funds contains \$23 million in unspent bond proceeds for a public safety facility, \$4 million for a consolidated fire station project and another \$19 million in other restricted resources for various types of capital construction. The majority of the \$2.7 million restriction for the general government is the City's Contingency Fund that is required by Washington State Statute but is consolidated for annual reporting. Additionally, restricted assets include \$1.2 million for park impact fees and levy funds, \$0.8 million in bond funds and \$0.2 million in lodging taxes reserved for tourism related activities.

The remaining \$74 million balance of net position is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$42.4 million pertains to the City's business-type activities, which may only be spent on water/sewer, surface water, and solid waste utility activities. Examples of such activities include maintenance of utility delivery systems (water lines, pump stations, and reservoirs), storm drain flushing, water meter reading, and utility capital construction projects. The \$31.8 million balance in unrestricted net position relates to governmental activities much of which is reserved by city policy for vehicle and computer replacement, facilities improvements, health benefits and funding a wide variety of contingencies, such as unforeseen expenditures and revenue shortfalls.

At the end of the fiscal year, the City of Kirkland reported positive balances in all three categories of net position for the government as a whole as well as for the separate governmental and business-type activities. The same was true for the prior fiscal year.

Changes in Net Position

The changes in net position table on the following page illustrates the increases or decreases in net position of the City resulting from operating activities. Overall, the City of Kirkland's net position increased about \$23 million in 2012. General revenue increases in sales tax, utility tax and excise tax are \$8 million of the increase. The City had over \$4 million in grants and contributions related to transportation activities during the year which added to the total increase in Net Position for governmental activities. Business activities recognized a \$5.7 million increase to Net Position. A breakdown of the 2012 increase in Net Position by governmental and business-type activities follows along with graphs that illustrate revenues by source and compare program expenses to program revenues on the next several pages.

City of Kirkland's Changes in Net Position (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$19.54	\$16.99	\$42.32	\$36.58	\$61.86	\$53.57
Operating grants and contributions	2.39	2.01	0.28	0.53	2.67	2.54
Capital grants and contributions	4.60	591.55	2.19	20.03	6.79	611.58
General revenues:						
Sales taxes	20.81	16.60	-	-	20.81	16.6
Property taxes	21.44	21.82	-	-	21.44	21.82
Utility taxes	14.14	12.30	-	-	14.14	12.3
Excise taxes	5.43	3.55	-	-	5.43	3.55
Business Taxes	2.37	2.35	-	-	2.37	2.35
Other taxes	2.77	2.15	-	-	2.77	2.15
Investment earnings	0.60	0.89	0.25	0.33	0.85	1.22
Miscellaneous*	0.15	0.15	-	-	0.15	0.15
Total revenues	94.24	670.36	45.04	57.47	139.28	727.83
Expenses:						
General government	4.99	4.99	-	-	4.99	4.99
Judicial	2.15	1.96	-	-	2.15	1.96
Security of Persons and Property	41.38	38.34	-	-	41.38	38.34
Physical environment	2.09	1.98	-	-	2.09	1.98
Transportation	10.62	8.88	-	-	10.62	8.88
Human services	1.25	1.17	-	-	1.25	1.17
Economic environment	5.48	4.58	-	-	5.48	4.58
Culture and recreation	7.84	7.36	-	-	7.84	7.36
Interest on long-term debt	2.24	2.11	-	-	2.24	2.11
Water/sewer	-	-	19.45	18.82	19.45	18.82
Surface water	-	-	5.80	4.69	5.80	4.69
Solid waste	-	-	13.19	10.66	13.19	10.66
Total expenses	78.04	71.37	38.44	34.17	116.48	105.54
Increase (decrease) in net position before transfers and special items	16.20	598.99	6.60	23.30	22.80	622.29
Transfers	0.86	0.84	(0.86)	(0.84)	0.00	0.00
Increase (decrease) in net position	17.06	599.83	5.74	22.46	22.80	622.29
Net position at beginning of year	842.79	239.43	175.51	153.05	1018.30	392.48
Changes in Accounting Principle	-	3.53	-	-	-	3.53
Net position at end of year	\$859.85	\$842.79	\$181.25	\$175.51	\$1,041.10	\$1,018.30

* Miscellaneous includes gain on sale of capital assets and unrestricted grants / contributions.

Governmental activities net position increased by over \$17 million in 2012. This change was predominantly due to tax revenue increases and grant revenues. A direct comparison of fiscal year 2012 and 2011 is challenging due to annexation. On June 1, 2011 the City annexed an area of over 7 square miles with approximately 30,000 residents. The tax revenue increases are due in part to the receipt of a full year of revenues in 2012 from the newly annexed areas, while in 2011 revenues reflected less than half a year due to the timing of state revenue distributions. The 2011 capital contributions also reflected the physical assets added due to annexation.

Expenses:

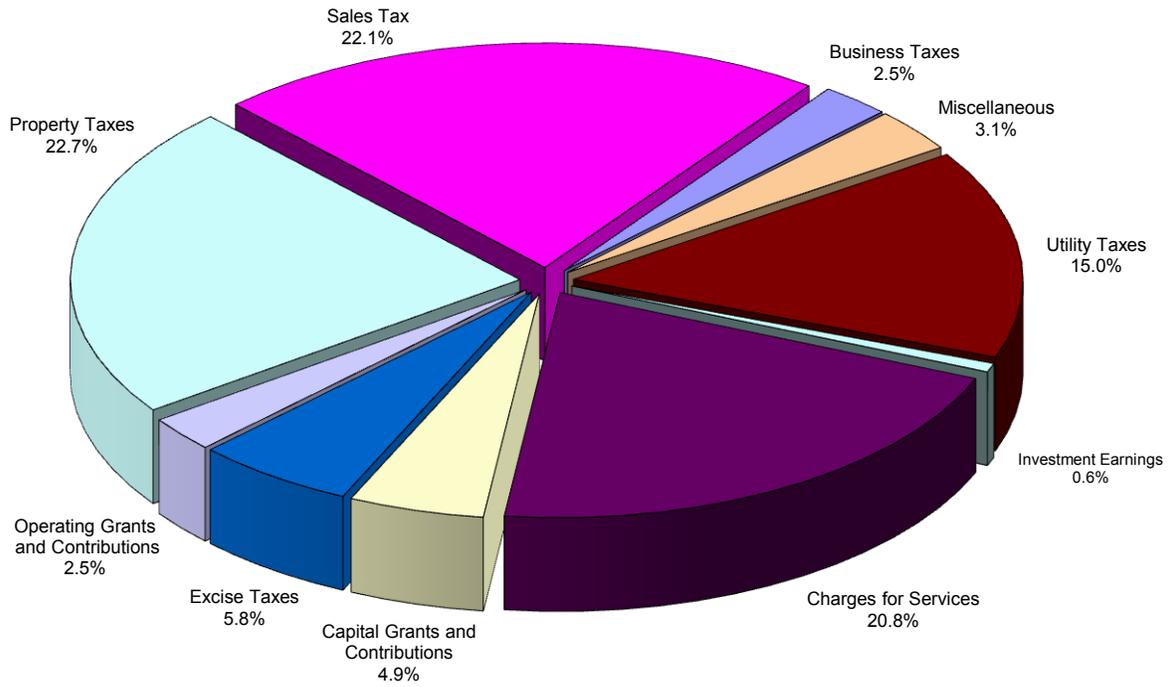
- Overall, governmental expenses had an increase of 9.3% as the City had higher operational costs related to the 2011 annexation.
 - With the addition of approximately 102 lane miles of streets the City had an increase of just under 20% in transportation related expenses. These costs were associated with additional staff, equipment and vehicles to cover the annexation area needs.
 - Security of Persons and Property incurred the largest increase in activity costs due to patrol and firefighter staffing for the annexation area. This amount leveled off in 2012 as the bulk of the annexation hiring was done prior to annexation. The increase of 7.9% in public safety expenses was due primarily to a full year of staffing and overtime costs.
 - The 19% increase in Economic Environment is related to an increase in services related to permitting and is offset in large part by an increase in revenues.
 - The slight increase in Culture and Recreation expenses of about 6.5% is related to the acquisition of additional parks in the annexation area and the maintenance costs associated with each.

Revenues:

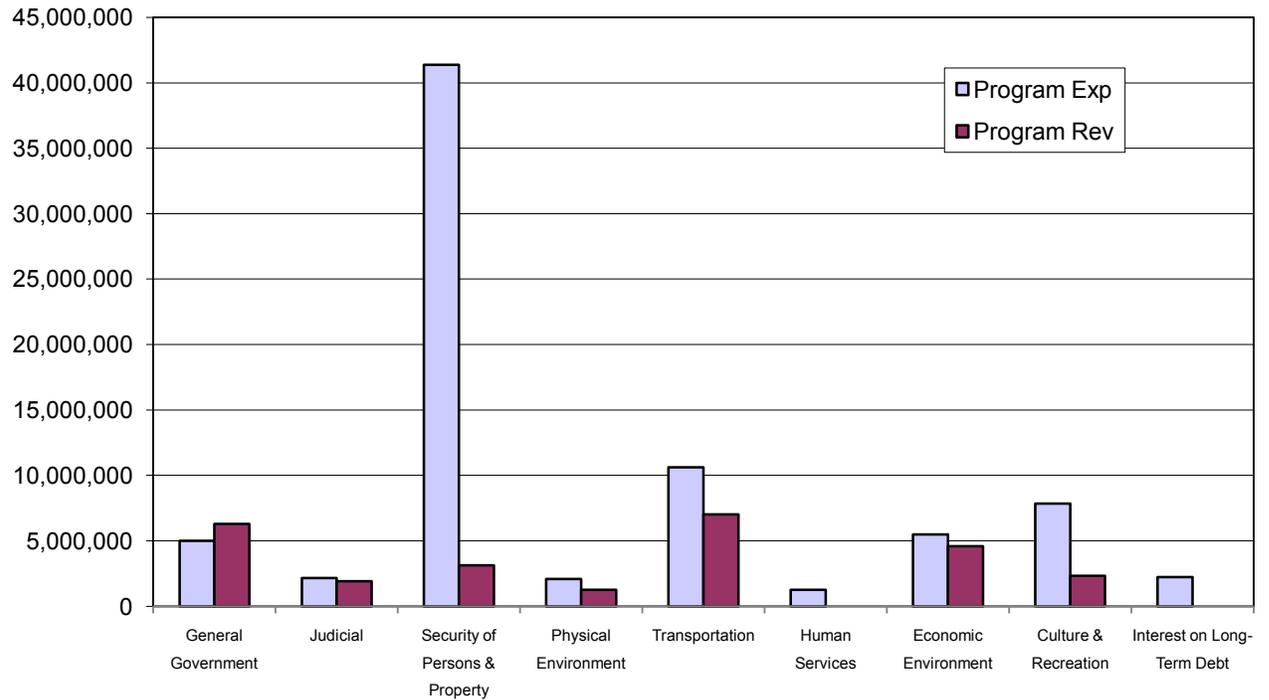
- Charges for services revenue had an increase of \$2.5 million from 2011 to 2012. A variety of factors influenced the change.
 - Development review fees had a substantial increase between 2011 and 2012. This 48% change is due to a larger City, economic stabilization, and a few large projects beginning the permitting stage. A significant portion of this additional revenue will be set aside as much of the permitting work will occur in subsequent years.
 - Public safety related charges for services are down by \$1.4 million when compared to 2011. The dissolution of King County Fire Protection District 41 following annexation shifted intergovernmental revenue supporting fire service once paid by the District, to property taxes. The amount collected directly from the District in 2011 was \$1.5 million. Offsetting this decrease was an increase in EMS transport fee revenue in 2012 of about \$275,000 when compared to the 2011 amount. The program began mid-year of 2011.

- The increase in residents and the increase in permitting activity resulted in \$1.3 million increase in impact fees collected for transportation and parks projects.
- Operating Grants and Contributions increased slightly in 2012, by a modest \$374,000 over 2011.
 - The largest operating contribution still remains functionally related to transportation. The Motor Vehicle Fuel Tax increased by \$360,000 in 2012 and is roughly 70% of this revenue category.
 - Federal, state, and local grants are the lesser part of Operating Grants and Contributions. Many of these amounts are somewhat stable from year to year and enhance the City's ability to consistently provide services. The Department of Justice provides funding for bulletproof vests, emergency management, and tactical gear. Both federal and state Transportation Departments provide funding for DUI patrols, highway safety programs, community policing programs, and pedestrian awareness.
- Capital Grants and Contributions are small in comparison to the dramatic increase in 2011 due to annexation. Infrastructure additions in 2011 amounted to almost \$600 million. Below are highlights of 2012 Contributions without comparisons.
 - Capital grants from the Federal and State Department of Transportation exceeded \$800,000. These funds were used on a variety of projects enhancing commuter participation, school walk routes, and implementation of an Intelligent Transportation System.
 - The City received over \$1.5 million from Sound Transit for intersection improvement projects.
 - Developer contributions were \$1.2 million in 2012.
- The City's general revenues reflect an increase of 13% from 2011 to 2012.
 - Sales tax had a noticeable increase of \$4.2 million. A positive performance in several sectors of retail including automobile sales, contracting, and restaurants, plus a full year's revenue from the newly annexed areas.
 - Both utility and excise taxes had increases of \$2 million each.

Revenues by Source - Governmental Activities



Program Expenses vs. Program Revenues - Governmental Activities



Business-type activities, which relate to the City's utilities, had an increase in net position of \$5.7 million, primarily due to operating income of \$4.1 million and developer contributions and connection charges of \$2.2 million.

Water/sewer operating revenues increased by 6.7 percent compared to the prior year. This increase was primarily the result of a 5.5 percent sewer rate increase and a 2.2 percent water rate increase. The City of Kirkland did not increase its water/sewer customer base as a result of annexation. The existing water/sewer providers before annexation remained the providers for the annexed area.

Surface water operating revenues were \$8.5 million in 2012 compared to \$6.8 million in 2011. The primary reason was annexation revenues were collected for a full year in 2012 compared to half of the year in 2011. Operating expenses increased \$1.1 million due to an increase in staff and equipment required to service the annexation area for the full year.

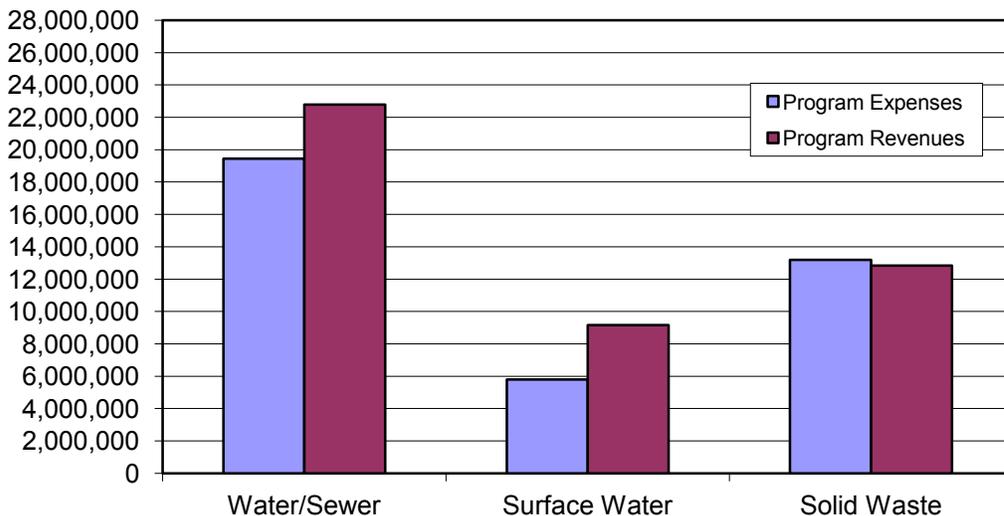
Solid Waste operating revenues increased by \$2.7 million due to serving the addition of approximately 10,000 new annexation customers for a full year and a 9.6% rate increase. Operating expenses increased \$2.6 million in 2012 compared to 2011. Of this increase, \$2.3 million was for collection and disposal costs as a result of the additional customers.

Capital contributions comprised of utility connection charges and developer and annexation infrastructure contributions, totaled \$2.2 million for 2012. Details for these amounts are shown below:

	<u>Water</u>	<u>Sewer</u>	<u>Surface Water</u>	<u>Total</u>
2012 Connection Charges Collected:	290,962	850,844	122,753	1,264,559
2012 Developer Infrastructure Contributions:	283,755	296,715	349,920	930,390
	<u>\$574,717</u>	<u>\$ 1,147,559</u>	<u>\$ 472,673</u>	<u>\$ 2,194,949</u>

The infrastructure contributions detailed above represent 16 percent of the increase in net position. These increases are actually reflected as additions to capital assets for the utility functions and are presented in Note 5 of this report.

Program Expenses vs. Program Revenues - Business-Type Activities

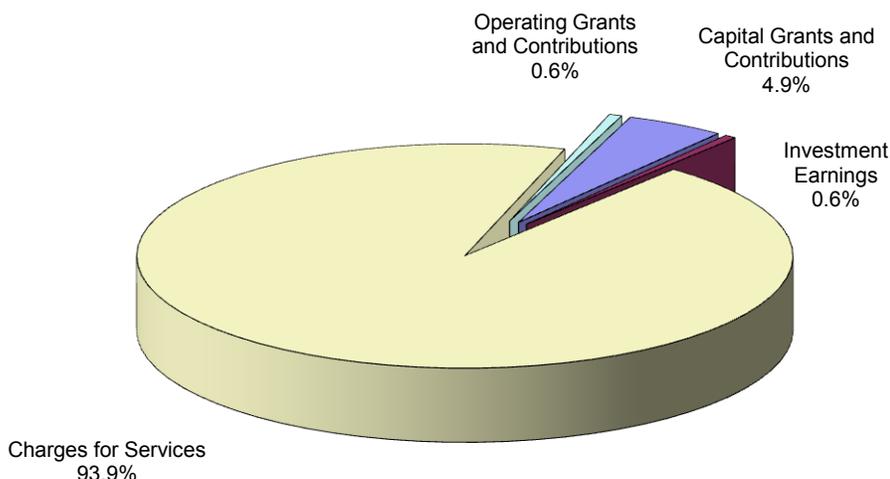


The City of Kirkland's 2012 utility net income (before capital contributions and transfers) was about \$4.4 million. The components are as follows:

Water/Sewer	\$1.7 million
Surface Water	\$3.0 million
Solid Waste	(\$0.3 million)

The solid waste loss was the result of downsizing of cart sizes by the customers in the newly annexed area and increased collection and disposal costs. The City absorbed the initial impact of the downsizing on revenues in 2012, but adjusted rates in 2013 to account for the shift to lower revenue service levels by a large segment of the new customer base.

Revenues by Source - Business-Type Activities



Financial Analysis of the Government's Funds

As discussed earlier, the City of Kirkland uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The purpose of the City's governmental funds is to report on near-term inflows, outflows, and balances of spendable resources. This information helps determine the City's financial requirements in the near future. In particular, fund balance is a good indicator of the City's resources available at year end.

At the end of the current year, the City's combined ending governmental fund balance was \$91.5 million, which represents an increase of \$3.3 million, or 3.8 percent, from the prior year. Of the total ending fund balance, over \$47 million is restricted and subject to an external legal constraint.

Bond covenants restrict the majority of the funds for the public safety campus and the consolidated fire station. Another \$10 million is restricted for transportation and parks projects that are funded with real estate excise taxes, grants, and impact fees. The Excise Capital Improvement fund holds another \$6.5 in excise taxes that have yet to be designated for specific projects but the funding is still restricted for that purpose. The committed fund balance of \$4 million has been constrained by the City Council for specific purposes. Several interlocal agreements commit funds for a regional jail, fire training, and other public safety purposes. The State of Washington provides for the City to have a Contingency Fund. This fund activity is shown within the General Fund for reporting purposes. The assigned balance of \$23 million is remaining amounts that have been determined by the City Manager, Finance Director, or City Council direction to be constrained. The Street Operating Fund does not meet the criteria for a special revenue fund as defined by GASB Statement 54 but is functionally required in order for the City to report the administration, maintenance, and minor construction of the City's transportation infrastructure to the State Legislature. The balance in the fund at year end was \$4.6 million. The City has funds assigned to meet operating obligations for activities such as labor negotiations, development services activities, overtime costs, litigation, property acquisition, park enhancements, and medical retiree benefits. These amounts comprise \$7.8 million of the year end fund balance. The unassigned balance of \$16.9 million in the general fund consists of amounts not otherwise classified such as revenue stabilization, cost of living adjustment, and working capital. Technically, they are unreserved, which means they are available for spending at the City's discretion. A significant portion of the unassigned balance is budgeted to fund reserve replenishments and additions, creation of equipment sinking funds, carryovers, and one-time service packages in the 2013-2014 biennium.

What follows is a brief analysis of each of the City's major governmental funds.

The general fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. At the end of 2012, the fund balance of the general fund was \$32.6 million, which represents an increase from the prior year of \$4 million.

General Fund revenues increased by 11% in 2012 due to a combination of economic rebounding and a full year of the larger tax base following annexation.

General fund expenditures increased by \$6.5 million in 2012. When the consolidated funds are considered the change in expenditures can be isolated to only a few functions. Security of Persons and Property increased by \$2.9 million as we completed hiring in 2012 to serve the newly annexed area. The additional \$1.5 million in expenditures related to transportation were related to the operations and maintenance of annexation streets and sidewalks acquired in 2011.

The excise tax capital improvement fund accounts for revenue from the first and second quarter percent real estate excise tax, which is reserved for the funding of capital projects related to streets, sidewalks, traffic improvements, parks, fire protection facilities, and other public facilities. The fund balance at the end of 2012 was \$6.5 million, decreasing by over \$2.2 million from 2011 due to the use of \$7.7 million of the balance toward scheduled capital projects. Excise tax receipts were up 53% in 2012 when compared to 2011, consistent with the economic improvement seen in other areas of the city.

The general capital projects fund accounts for the acquisition and/or construction of general governmental infrastructure, facilities, and equipment that are approved in the City's capital improvement program (CIP) and that are funded from other general revenue sources, grants, and restricted funds. The ending fund balance decreased slightly by \$1.4 million from the prior year. Unspent bond proceeds from the 2010 Build America Bond issuance and the 2011 King County Fire Protection District 41 bond account for \$27 million of the fund balance.

The transportation capital projects fund accounts for transportation projects approved in the CIP, including those that are funded partially or wholly by grants from other governments. The fund balance at the end of 2012 was \$5.3 million, which is an increase of \$1.1 million from 2011. Balances in both capital project funds vary slightly from year to year dependent upon CIP activity and the size of projects in process.

Proprietary Funds

The City of Kirkland's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the City's proprietary funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During 2012, there was a net decrease of \$0.5 million in biennial appropriations between the original adopted budget and the final amended budget. These amendments were necessitated by changes to actual revenues and actual expenditures within the general fund. Note that the figures cited are biennial amounts for 2011-2012 and that the budget is recorded on a cash basis.

Following are the major components of the changes:

- Budgeted parks maintenance expenditures funded by the Parks Maintenance property tax levy were moved out of the General Fund to the Parks Maintenance fund, which resulted in a reduction to the General Fund appropriation of about \$371,000.
- In 2012, Washington State balanced its budget by reducing shared liquor revenues to local government agencies. The estimated impact to the City was about \$317,000. A portion of this revenue had already been set aside in a reserve as a contingency for unfunded mandates, so the resulting reduction was taken against this reserve.
- Grants, intergovernmental revenue, and private contribution revenues added about \$100,000 in revenue, primarily for police services, emergency preparedness, and financial services.
- Funding from the City's Capital Improvement Program fund of about \$77,000 provided staff support for the replacement of the City's permitting system and funding for near-shore water rescue equipment purchase for the Fire Department.

The actual General Fund 2012 results on a cash basis varied from the final amended budget as follows:

- Actual 2012 General Fund revenues ended the year \$0.5 million under the budgeted level (\$77.3 million versus budget of \$77.8 million), primarily due lower than expected fines and forfeits and utility taxes and despite sales tax and development services-related revenue ending the year higher than budget.
- Actual 2012 General Fund expenditures ended the year about \$4.9 million under budget. More than half of the under-expenditures are a result of salary and benefit savings partially due to delayed hiring for annexation. This savings is not expected to continue at the same level in 2013. The remaining under-expenditures are primarily due to savings in intergovernmental (contract inmate housing costs) and professional services.

Capital Asset and Debt Administration

Capital Assets

The City of Kirkland's investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounts to \$914.7 million (net of accumulated depreciation), which represents a \$13.9 million increase from the prior year. This investment in and capitalization of capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, utility transmission and distribution systems, roads, and bridges. More details about changes in capital assets are explained below.

Below are notable changes to capital assets that involve expenditures in the current year or the capitalization of projects that were in process for several years.

- \$12.6 million spent on transportation improvements which may include new or enhanced roadways, intersections, sidewalks, crosswalks, signals, traffic calming projects, and utility undergrounding. A significant portion of the 2012 amount was related to the acquisition of 5.75 miles of a rail corridor purchased by the City to be developed for public use.
- \$2.2 million funded the purchase of vehicles and equipment from the City's Equipment Rental fund. The City uses an internal service fund to charge departments for the replacement of service vehicles and equipment. Approximately \$1 million of the purchases in 2012 were from reserves of this fund, the other \$1.2 million were annexation related purchases for public safety vehicles and public works utility equipment.
- \$1.2 million of Build America Bond funds were expended on renovations to a public safety building and campus that will house the City's police department and municipal court in 2014.
- \$2.0 million spent on water and sewer utility improvement projects, most of which are still in progress.
- \$2.7 million spent on surface water utility improvement projects, most of which are still in progress.

Following is a condensed version of the city's capital assets (expressed in millions of dollars), net of depreciation, related to governmental and business-type activities for fiscal years 2011 and 2012:

City of Kirkland's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$588.62	\$583.75	\$2.03	\$1.02	\$590.65	\$584.77
Buildings	27.62	28.54	-	0.01	27.62	28.55
Improvements other than buildings	12.18	13.88	132.32	133.49	144.50	147.37
Machinery and equipment	8.39	7.33	-	-	8.39	7.33
Infrastructure	129.49	122.15	-	-	129.49	122.15
Construction in progress	28.08	29.79	7.08	4.87	35.16	34.66
Artwork	1.63	1.63	-	-	1.63	1.63
Total	\$796.01	\$787.07	\$141.43	\$139.39	\$937.44	\$926.46

Additional information on the City of Kirkland's capital assets can be found in Note 5 of this report.

Long-term Debt

At the end of the current fiscal year, the City of Kirkland had total General Obligation bonded debt outstanding of \$46.71 million and other long-term debt of \$3.07 million. The total outstanding debt (expressed in millions of dollars) at the end of 2011 and 2012 is broken down between governmental and business-type activities as follows:

City of Kirkland's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$46.71	\$49.25	-	-	\$46.71	\$49.25
Revenue Bonds	-	-	0.94	1.70	0.94	1.70
Public Works Trust Fund Loans	-	-	2.13	2.52	2.13	2.52
Total	\$46.71	\$49.25	\$3.07	\$4.22	\$49.78	\$53.47

On November 17, 2008, Standard and Poor's upgraded the City's Water and Sewer Revenue Bonds from "AA-" to "AAA" and on November 24, 2008, upgraded the City's General Obligation Bonds from "AA-" to "AAA." On August 16, 2011, Standard and Poor's affirmed the City of Kirkland's AAA rating.

On April 23, 2010, Moody's Investors Service applied its Global Scale Rating to Kirkland's outstanding Unlimited Tax General Obligation Bonds, Limited Tax General Obligation Bonds, and Water/Sewer Revenue Bonds.

Moody's ratings for Kirkland are now as follows:

Unlimited Tax GO Bonds	Aa1
Limited Tax GO Bonds	Aa2
Water/Sewer Revenue Bonds	Aa2

Washington State statute limits the amount of general obligation debt a governmental entity may issue to 7.5 percent of its total assessed valuation, subject to a 60 percent majority vote of qualified electors. Of the 7.5 percent limit, 2.5 percent is for general purposes, 2.5 percent for open space/park/capital facilities, and 2.5 percent for utilities. Non-voted (i.e. limited tax) general obligation debt is limited to 1.5 percent of assessed valuation. The combination of voted and non-voted general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation.

The City's assessed valuation for 2012 was \$14.7 billion, and the total remaining amount of unlimited tax and limited tax general obligation debt the City may issue is \$1,076.7 million.

Additional information on the City of Kirkland's long-term debt can be found in Note 9 of this report and in the Statistical Section of the report.

Economic Factors and Next Year's Budgets and Rates

Washington State's economy continues to slightly outperform the national economy and moving forward at a modest pace. Building permits activity in the fourth quarter of 2012 was the strongest since the first quarter of 2008. Home prices are on a sustained upward trend. Export growth

weakened compared to 2011, but remained positive in 2012. Personal income increased 4.5 percent in 2012 from 2011 compared to the national average of 3.5 percent. As noted below, the job market in the Seattle metropolitan region has improved. Risks include continued concerns about the effect of federal fiscal policies on the national and local economies, sovereign debt issues triggering recession in Europe, and slowing of the Asian economies.

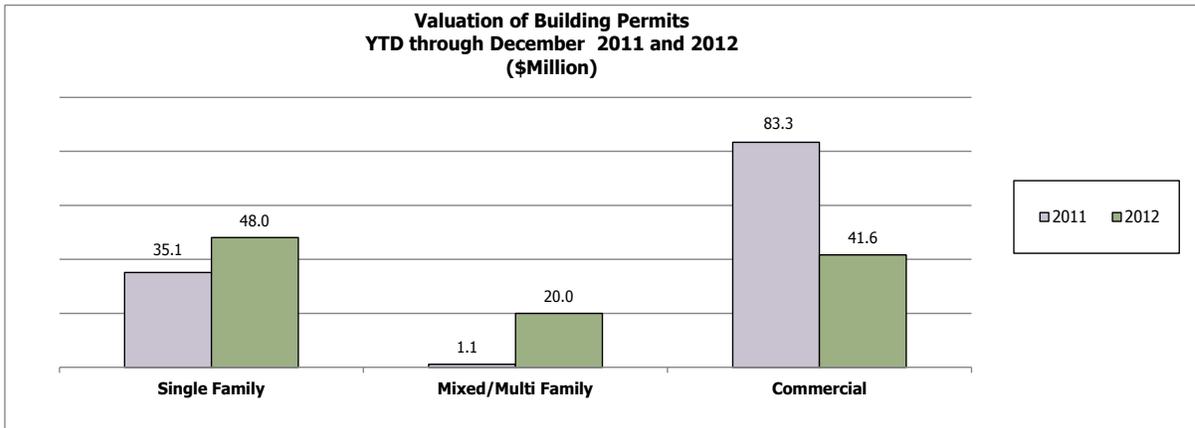
Washington State continues to be challenged in balancing its budget, so the risks of reduction of state-shared revenue with local governments and/or cost sharing shifts remain. The Legislature has not finalized the next biennial budget, but current proposals pose minimal risk to the City's financial situation at this point.

King County's unemployment rate was 6.0 percent in December 2012 compared to 7.2 percent in December 2011, the lowest since December 2008. King County's unemployment rate is lower than the Washington State and national rates, which were 7.5 and 7.8 percent. Unemployment rates by month for the County, Washington State, and the United States are shown on the following table.

Month	King County	Washington	United States
December 2011	7.2%	8.6%	8.5%
January 2012	7.5%	8.5%	8.3%
February 2012	7.6%	8.4%	8.3%
March 2012	7.0%	8.4%	8.2%
April 2012	6.4%	8.4%	8.1%
May 2012	6.8%	8.4%	8.2%
June 2012	7.3%	8.4%	8.2%
July 2012	7.5%	8.3%	8.2%
August 2012	6.8%	8.2%	8.1%
September 2012	6.5%	8.0%	7.8%
October 2012	6.4%	7.8%	7.9%
November 2012	6.2%	7.6%	7.8%
December 2012	6.0%	7.5%	7.8%
2012 Average	6.8%	8.2%	8.1%
2011 Average	8.2%	9.2%	9.0%

Source: United States Department of Labor, Bureau of Labor Statistics

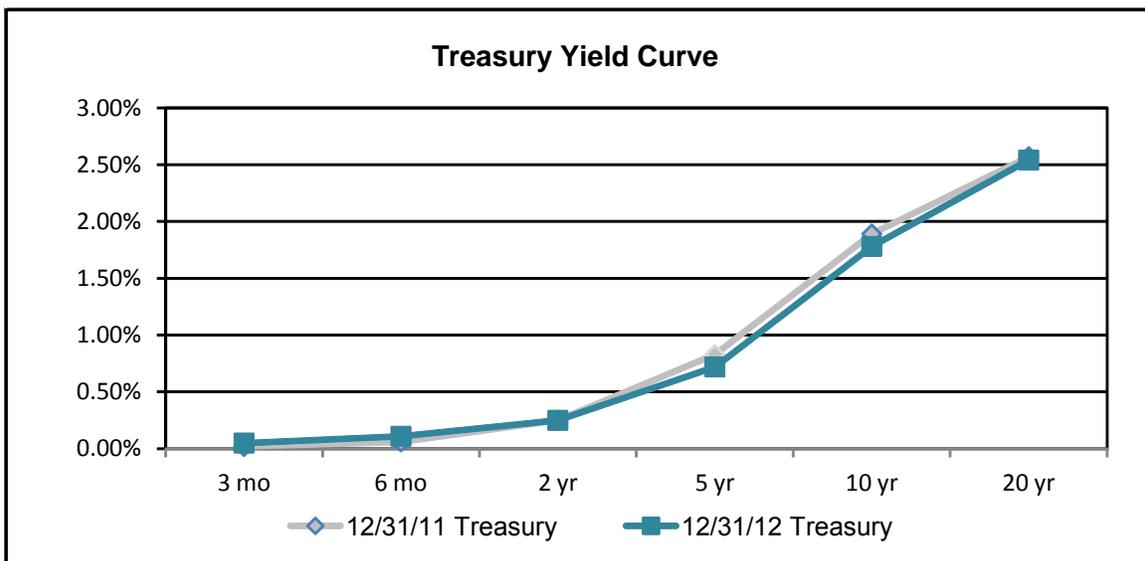
Local development activity through December comparing 2011 to 2012, as measured by the valuation of City of Kirkland building permits, is illustrated in the chart below. Overall activity is down about 8 percent from last year. Activity has improved in single family and mixed use/multifamily but declined in the commercial sector. A large mixed use/multifamily project permit was applied for in October which increased the valuation in this sector significantly. Development activity in Planning and Public Works increased in 2012 over 2011, which may bode well for increased building activity moving into 2013.



Closed sales of new and existing single family homes on the Eastside of Seattle were up 32.9 percent in December 2012 compared to December 2011. The median price of a single family home increased from \$460,000 to \$510,468. Closed sales of condominiums throughout King County were up 31.6 percent and median prices increased by 2.3 percent, from \$239,500 to \$245,000. County-wide closed sales for single family homes and condos increased by 18.3 percent. The county-wide median home price increased by 17.5 percent on a year to year comparison.

The Seattle metro consumer price index in December was at 1.4 percent, the Seattle metro CPI fluctuated throughout the year averaging 2.66 percent. The Seattle index is calculated on a bi-monthly basis. The national index ended the year at 1.7 percent in December and averaging 2.12 percent for 2012.

The Fed Funds rate remained at 0.25 percent for all of 2012 and is not expected to increase until the second quarter of 2015. The economy continued to improve marginally in 2012. The yield curve at the end of 2012 was nearly identical to the curve at the end of 2011 on both ends of the curve.



Sales tax receipts for 2012 continued to indicate a moderate recovery and the normal revenue volatility associated with sales tax revenues. Contracting and automotive/gas retail contributed the largest amount of gain, but these sectors are very sensitive to economic conditions. The contracting sector has shown signs of recovery, with some of this gain due to the construction of two new elementary schools in the new neighborhoods. Anticipating revenues from the new neighborhoods for the full year of 2012, the budget included a 7.9 percent increase over 2011 actual. New neighborhood revenue is below expectations offset by gains in the pre-annexation City and contracting. On a cash basis, total sales tax receipts ended the year 10.6 percent ahead of 2011.

Requests for Information

This financial report is designed to provide a general overview of the City of Kirkland's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to Tracey Dunlap, Director of Finance & Administration, City of Kirkland, 123 Fifth Avenue, Kirkland, WA 98033-6189.

Basic Financial Statements



City of Kirkland
Statement of Net Position
December 31, 2012

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	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and Cash Equivalents	50,478,646	18,065,414	68,544,060
Investments (Note 3)	57,819,300	19,422,270	77,241,570
Receivables			
Accounts	10,673,681	9,033,236	19,706,917
Due From Other Governments	1,755,832	161,568	1,917,400
Internal Balances	(11,322)	11,322	0
Inventories	61,636	433,966	495,602
Restricted Assets			
Deposits	538,749	0	538,749
Sub-total Current Assets	121,316,522	47,127,776	168,444,298
Non-Current Assets and Deferred Charges			
Restricted Assets			
Revenue Bond Reserves	0	488,200	488,200
Total Restricted Assets	0	488,200	488,200
Negative Net Pension Obligation	1,023,354	0	1,023,354
Capital Assets (Note 5)			
Land and Artwork	590,246,521	2,025,871	592,272,392
Depreciable Capital Assets (net)	48,192,315	132,317,256	180,509,571
Depreciable Infrastructure (net)	129,486,843	0	129,486,843
Construction in Progress	28,079,677	7,083,230	35,162,907
Total Capital Assets	796,005,356	141,426,357	937,431,713
Total Non-Current Assets	797,028,710	141,914,557	938,943,267
Total Assets	918,345,232	189,042,333	1,107,387,565
Deferred Outflows of Resources			
Deferred charge on refunding	364,942	0	364,942
Total deferred outflows of resources	364,942	0	364,942

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Net Position
December 31, 2012

Page 2 of 2

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities			
Accounts Payable	4,730,516	1,310,744	6,041,260
Other Current Liabilities	2,787,586	1,813,776	4,601,362
Accrued Interest Payable	0	6,625	6,625
Unearned Revenue	450,087	1,936,573	2,386,660
Total Current Liabilities	7,968,189	5,067,718	13,035,907
Current Liabilities Payable from Restricted Assets			
Accrued Interest Payable	179,490	3,117	182,607
Current Bond Principal Payable	2,431,451	460,000	2,891,451
Deposits Payable	644,505	12,710	657,215
Total Current Liabilities Payable from Restricted Assets	3,255,446	475,827	3,731,273
Total Current Liabilities	11,223,635	5,543,545	16,767,180
Noncurrent Liabilities			
Due in more than one year	47,455,302	2,250,382	49,705,684
Total Noncurrent Liabilities	47,455,302	2,250,382	49,705,684
Total Liabilities	58,678,937	7,793,927	66,472,864
Deferred Inflows of Resources			
Deferred Charge on Refunding	182,468	0	182,468
Total Deferred Inflows of Resources	182,468	0	182,468
Net Position			
Net Investment in Capital Assets	776,309,902	138,359,034	914,668,936
Restricted for			
Tourism	268,352	0	268,352
Parks and Recreation	1,278,843	0	1,278,843
Public Safety	381,886	0	381,886
Capital Improvements	46,699,140	0	46,699,140
Debt Service	314,857	488,200	803,057
General Government	2,775,448	0	2,775,448
Unrestricted	31,820,341	42,401,172	74,221,513
Total Net Position	859,848,769	181,248,406	1,041,097,175



City of Kirkland
Statement of Activities
For the fiscal year ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense/Revenue and Changes in Net Position)		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	4,996,539	6,193,191	88,092	0	1,284,744	0	1,284,744
Judicial	2,152,625	1,884,924	28,331	0	(239,370)	0	(239,370)
Security of Persons and Property	41,376,492	2,517,728	295,245	325,497	(38,238,022)	0	(38,238,022)
Physical Environment	2,088,842	1,245,290	0	0	(843,552)	0	(843,552)
Transportation	10,621,802	1,287,801	1,743,073	3,995,546	(3,595,382)	0	(3,595,382)
Human Services	1,247,531	0	0	0	(1,247,531)	0	(1,247,531)
Economic Environment	5,477,609	4,579,991	15,938	0	(881,680)	0	(881,680)
Culture and Recreation	7,842,007	1,834,283	217,829	276,600	(5,513,295)	0	(5,513,295)
Interest on Long Term Debt	2,238,879	0	0	0	(2,238,879)	0	(2,238,879)
Total Governmental Activities	78,042,326	19,543,208	2,388,508	4,597,643	(51,512,967)	0	(51,512,967)
Business Type Activities							
Water/Sewer	19,448,287	21,066,391	5,909	1,722,276	0	3,346,289	3,346,289
Surface Water	5,798,425	8,502,468	181,519	472,673	0	3,358,235	3,358,235
Solid Waste	13,191,812	12,746,781	97,293	0	0	(347,738)	(347,738)
Total Business Type Activities	38,438,524	42,315,640	284,721	2,194,949	0	6,356,786	6,356,786
Total Government	116,480,850	61,858,848	2,673,229	6,792,592	(51,512,967)	6,356,786	(45,156,181)
General Revenues							
Sales Taxes					20,813,009	0	20,813,009
Property Taxes					21,435,319	0	21,435,319
Utility Taxes					14,141,722	0	14,141,722
Excise Taxes					5,434,137	0	5,434,137
Business Taxes					2,371,259	0	2,371,259
Other Taxes					2,773,320	0	2,773,320
Unrestricted Grants & Contributions					99,929	0	99,929
Investment Earnings					588,839	249,865	838,704
Gain on sale of capital assets					46,215	0	46,215
Transfers, internal activities					865,313	(865,313)	0
Total General Revenues & Transfers					68,569,062	(615,448)	67,953,614
Change in net position					17,056,095	5,741,338	22,797,433
Net position at beginning of year					842,792,674	175,507,068	1,018,299,742
Net Position at end of year					859,848,769	181,248,406	1,041,097,175

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Balance Sheet
 Governmental Funds
 December 31, 2012

Page 1 of 2

	General Fund	Excise Capital Improvement	General Capital Projects	Transportation Capital Projects	Non Major Governmental Funds	Governmental Funds Total
Assets						
Current Assets						
Cash and Cash Equivalents	12,531,416	2,736,987	20,600,841	1,905,303	2,188,842	39,963,389
Investments	15,858,988	3,020,867	22,752,884	2,149,726	2,418,445	46,200,910
Receivables						
Taxes	6,817,703	741,883	0	0	61,931	7,621,517
Accounts	1,017,294	0	574	14,181	0	1,032,049
Due From Other Governments	59,029	0	136,947	1,484,311	5,139	1,685,426
Restricted Assets						
Deposits	538,749	0	0	0	0	538,749
Total Assets	36,823,179	6,499,737	43,491,246	5,553,521	4,674,357	97,042,040
Liabilities						
Accounts Payable	595,257	0	949,891	231,577	7,544	1,784,269
Wages Payable	2,251,261	0	0	0	29,089	2,280,350
Taxes Payable	106,657	0	0	0	0	106,657
Due to Other Funds	2,233	0	137	0	0	2,370
Due to Other Governments	210,523	0	0	2,540	302	213,365
Payable from Restricted Assets						
Deposits Payable	644,505	0	0	0	0	644,505
Unearned Revenue	63,128	0	0	0	0	63,128
Total Liabilities	3,873,564	0	950,028	234,117	36,935	5,094,644
Deferred Inflows of Resources						
Unavailable Revenue - Property Taxes	353,615	0	0	0	33,344	386,959
Total Deferred Inflows of Resources	353,615	0	0	0	33,344	386,959
Fund Balances						
Restricted for						
Customer Deposits	538,749	0	0	0	0	538,749
Tourism	0	0	0	0	268,352	268,352
Debt Service	0	0	0	0	314,857	314,857
Drug Enforcement	48,685	0	0	0	0	48,685
Public Safety Facilities	0	0	27,361,953	0	0	27,361,953
Technology Projects	0	0	187,965	0	0	187,965
Transportation Projects	0	0	231,459	4,812,949	2,059,953	7,104,361
Parks and Recreation Projects	0	0	1,873,094	0	1,278,843	3,151,937
Capital Improvements	0	6,499,737	2,120,156	0	0	8,619,893

City of Kirkland
Balance Sheet
 Governmental Funds
 December 31, 2012

Page 2 of 2

	General Fund	Excise Capital Improvement	General Capital Projects	Transportation Capital Projects	Non Major Governmental Funds	Governmental Funds Total
Committed for						
Fire Interlocals	38,363	0	1,215,748	0	0	1,254,111
Contingency Fund	2,201,870	0	0	0	0	2,201,870
Regional Jail	294,838	0	0	0	0	294,838
Transportation Projects	0	0	0	307,090	0	307,090
General Government Activities	34,829	0	0	0	0	34,829
Assigned for						
Street Operating Fund	4,656,047	0	0	0	0	4,656,047
General Reserves	5,472,904	0	0	0	0	5,472,904
Public Safety Activities	1,472,889	0	0	0	0	1,472,889
Development Services	532,704	0	0	0	0	532,704
Parks and Recreation Activities	296,936	0	0	0	0	296,936
General Government Activities	36,028	0	0	0	0	36,028
Cemetery Operations	0	0	0	0	682,074	682,074
Capital Projects	0	0	9,550,843	199,365	0	9,750,208
Unassigned	16,971,158	0	0	0	0	16,971,158
Total Fund Balances	32,596,000	6,499,737	42,541,218	5,319,404	4,604,078	91,560,437
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	36,823,179	6,499,737	43,491,246	5,553,521	4,674,357	97,042,040

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	788,132,927
Other long-term assets are not available to pay for current period expenditures and therefore deferred in the funds	3,334,952
Long term liabilities are not due and payable in the current period and are not reported in the funds	(52,275,797)
Internal service funds are used by management to charge the costs of certain activities to individual funds	29,096,250

The assets and liabilities are included in governmental activities in the statement of net position

Net Position of governmental activities

859,848,769

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the fiscal year ended December 31, 2012

Page 1 of 2

	General Fund	Excise Capital Improvement
Revenues		
Taxes and Assessments	56,933,223	5,434,137
Licenses and Permits	7,068,382	0
Intergovernmental	4,193,216	0
Charges for Services	11,517,139	0
Fines and Forfeitures	1,808,569	0
Investment Interest	271,304	45,750
Miscellaneous Revenues	960,632	0
Total Revenues	82,752,465	5,479,887
Expenditures		
Current		
General Government	11,089,878	0
Security of Persons and Property	40,515,907	0
Physical Environment	3,946,737	0
Transportation	5,002,232	0
Economic Environment	6,612,558	0
Culture and Recreation	5,701,024	0
Debt Service		
Principal	0	0
Interest	0	0
Capital Outlay	77,252	0
Total Expenditures	72,945,588	0
Excess (Deficiency) of revenues		
Over (under) expenditures	9,806,877	5,479,887
Other Financing Sources (Uses)		
Sale of Capital Assets	4,390	0
Transfers In	429,054	0
Transfers Out	(6,269,087)	(7,707,283)
Total Other Financing Sources (Uses)	(5,835,643)	(7,707,283)
Net Change in Fund Balance	3,971,234	(2,227,396)
Fund Balances Beginning of Year	28,624,766	8,727,133
Fund Balances End of Year	32,596,000	6,499,737

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the fiscal year ended December 31, 2012

Page 2 of 2

General Capital Projects	Transportation Capital Projects	Non Major Governmental Funds	Governmental Funds Total
166,667	0	2,826,704	65,360,731
0	0	0	7,068,382
703,454	2,747,384	599,442	8,243,496
0	32,553	1,951,974	13,501,666
81,000	0	0	1,889,569
196,587	0	13,825	527,466
20,590	101,014	6,416	1,088,652
1,168,298	2,880,951	5,398,361	97,679,962
0	0	0	11,089,878
0	0	0	40,515,907
0	0	34,374	3,981,111
0	3,381,941	0	8,384,173
0	0	187,373	6,799,931
0	14,666	1,153,376	6,869,066
0	0	2,545,313	2,545,313
0	0	2,238,879	2,238,879
4,055,419	8,079,124	1,200	12,212,995
4,055,419	11,475,731	6,160,515	94,637,253
(2,887,121)	(8,594,780)	(762,154)	3,042,709
0	0	38,816	43,206
3,332,851	9,666,440	2,815,370	16,243,715
(1,873,342)	0	(140,185)	(15,989,897)
1,459,509	9,666,440	2,714,001	297,024
(1,427,612)	1,071,660	1,951,847	3,339,733
43,968,830	4,247,744	2,652,231	88,220,704
42,541,218	5,319,404	4,604,078	91,560,437

City of Kirkland
**Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
To the Statement of Activities**
For the fiscal year ended December 31, 2012

Amounts reported for governmental funds in the statement of activities are different because:

Net change in fund balances for governmental funds 3,339,733

Governmental funds report capital outlays as expenditures. In the statement of activities the cost of assets is depreciated over their estimated useful lives.

Capital outlays	12,212,995	
Depreciation	(5,174,244)	
Contributed Infrastructure	1,219,236	
Park Donation	15,000	
CIP Closures	(108,159)	
	8,164,828	8,164,828

The issuance of long term debt is a resource and the repayment of bond principal, issuance costs and bond discounts are expenditures in governmental funds. These transactions affect liabilities in statement of net position.

Debt Retired	2,545,313	
Bond (Premium) Discount	6,080	
	2,551,393	2,551,393

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in Court Receivable		57,710
Change in Pension Asset		135,518
Bond Subsidy		49,959

Expenses in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.

Change in Compensated Absences		7,643
Accrued Interest		7,312
Other Post Employment Benefit Obligation		(317,653)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.

3,059,652

Change in net position of governmental activities

17,056,095

The notes to the financial statements are an integral part of this statement.



City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
 General Fund
 For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	97,268,065	96,380,385	45,197,051	53,217,352	98,414,403	2,034,018
Licenses and Permits	11,407,382	11,731,523	4,602,791	6,907,945	11,510,736	(220,787)
Intergovernmental	11,820,987	10,108,969	4,052,747	2,623,221	6,675,968	(3,433,001)
Charges for Services	20,230,483	21,654,553	9,886,550	11,444,376	21,330,926	(323,627)
Fines and Forfeitures	5,216,659	5,216,659	1,843,297	1,806,070	3,649,367	(1,567,292)
Interest on Sales Tax Contract	0	0	63,008	66,453	129,461	129,461
Investment Interest - Dedicated	394,315	394,315	238,161	247,914	486,075	91,760
Contributions/Donations	75,500	99,959	167,754	112,497	280,251	180,292
Miscellaneous Revenues	755,067	746,567	459,366	579,687	1,039,053	292,486
Total Revenues	147,168,458	146,332,930	66,510,725	77,005,515	143,516,240	(2,816,690)
Expenditures						
Current						
General Government	20,155,690	19,837,774	8,986,578	9,853,916	18,840,494	997,280
Security of Persons and Property	88,730,338	91,911,713	41,311,053	44,497,997	85,809,050	6,102,663
Physical Environment	6,219,832	6,602,575	2,861,448	3,096,577	5,958,025	644,550
Transportation	1,137,008	1,184,738	503,786	475,432	979,218	205,520
Economic Environment	6,461,613	6,357,476	2,880,399	3,094,304	5,974,703	382,773
Human Services	2,443,436	2,657,835	1,159,141	1,237,840	2,396,981	260,854
Culture and Recreation	12,095,682	11,777,045	5,565,507	5,687,053	11,252,560	524,485
Capital Outlay	286,773	297,182	56,182	23,131	79,313	217,869
Total Expenditures	137,530,372	140,626,338	63,324,094	67,966,250	131,290,344	9,335,994
Excess of revenues over expenditures	9,638,086	5,706,592	3,186,631	9,039,265	12,225,896	6,519,304
Other Financing Sources (Uses)						
Sale of capital assets	0	0	1,192	4,390	5,582	5,582
Transfers In	175,494	428,588	99,534	329,054	428,588	0
Transfers Out	(6,839,113)	(8,229,140)	(2,827,753)	(4,833,452)	(7,661,205)	567,935
Total Other Financing Sources (Uses)	(6,663,619)	(7,800,552)	(2,727,027)	(4,500,007)	(7,227,034)	573,518
Net Change in Fund Balance	2,974,467	(2,093,960)	459,604	4,539,257	4,998,861	7,092,821
Fund Balances Beginning of Year	11,124,606	12,877,021	4,130,043	16,809,756	4,130,043	(8,746,978)
Changes in Accounting Principle	0	1,722,725	12,220,109	0	12,220,109	10,497,384
Fund Balances End of Year	14,099,073	12,505,786	16,809,756	21,349,014	21,349,014	8,843,228

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Excise Tax Capital Improvement Special Revenue Fund
For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	4,070,000	4,070,000	3,405,746	5,130,566	8,536,312	4,466,312
Investment Interest	144,773	144,773	93,143	59,498	152,641	7,868
Total Revenues	4,214,773	4,214,773	3,498,889	5,190,064	8,688,953	4,474,180
Excess of revenues over expenditures	4,214,773	4,214,773	3,498,889	5,190,064	8,688,953	4,474,180
Other Financing Sources (Uses)						
Operating Transfers In	0	0	501,824	0	501,824	501,824
Transfers Out	(6,871,123)	(7,684,034)	(4,372,694)	(7,707,283)	(12,079,977)	(4,395,943)
Total Other Financing Sources (Uses)	(6,871,123)	(7,684,034)	(3,870,870)	(7,707,283)	(11,578,153)	(3,894,119)
Net Change in Fund Balance	(2,656,350)	(3,469,261)	(371,981)	(2,517,219)	(2,889,200)	580,061
Fund Balances Beginning of Year	8,702,668	8,651,975	8,651,975	8,279,994	8,651,975	0
Fund Balances End of Year	6,046,318	5,182,714	8,279,994	5,762,775	5,762,775	580,061

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Net Position
 Proprietary Funds
 December 31, 2012

Page 1 of 2

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water/Sewer	Surface Water	Solid Waste		
Assets					
Current Assets:					
Cash and Cash Equivalents	10,238,478	7,585,145	241,791	18,065,414	10,515,257
Investments (Note 3)	10,821,007	8,334,848	266,415	19,422,270	11,618,390
Receivables					
Interest	194,036	0	0	194,036	0
Contracts	1,909,307	0	0	1,909,307	0
Accounts	4,171,240	289,086	2,449,230	6,909,556	123,418
Assessments	20,337	0	0	20,337	0
Due From Other Governments	9,885	131,603	20,080	161,568	20,447
Due From Other Funds	11,687	0	0	11,687	0
Inventories	373,658	60,308	0	433,966	61,636
Total Current Assets	27,749,635	16,400,990	2,977,516	47,128,141	22,339,148
Noncurrent Assets					
Restricted Assets					
Revenue Bond Reserves	488,200	0	0	488,200	0
Total Restricted Assets	488,200	0	0	488,200	0
Capital Assets (Note 5)					
Land	47,784	1,978,087	0	2,025,871	0
Depreciable Capital Assets (Net)	82,668,674	49,648,582	0	132,317,256	7,872,431
Construction in Progress	4,453,102	2,630,128	0	7,083,230	0
Total Capital Assets	87,169,560	54,256,797	0	141,426,357	7,872,431
Total Noncurrent Assets	87,657,760	54,256,797	0	141,914,557	7,872,431
Total Assets	115,407,395	70,657,787	2,977,516	189,042,698	30,211,579

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Net Position
Proprietary Funds
December 31, 2012

Page 2 of 2

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water/Sewer	Surface Water	Solid Waste		
Liabilities					
Current Liabilities					
Accounts Payable	99,235	263,531	947,978	1,310,744	137,738
Claims Payable	0	0	0	0	611,030
Wages Payable	74,742	102,746	12,038	189,526	181,795
Compensated Absences Payable	68,214	47,680	5,054	120,948	119,576
Due to Other Funds	365	0	0	365	8,952
Due to Other Governments	866,242	71,092	178,790	1,116,124	26,345
Accrued Interest Payable	6,625	0	0	6,625	0
Unearned Revenue	1,936,573	0	0	1,936,573	0
Loans and Contracts Payable	387,178	0	0	387,178	0
Sub-total Current Liabilities	3,439,174	485,049	1,143,860	5,068,083	1,085,435
Current Liabilities Payable From Restricted Assets					
Deposits Payable	12,710	0	0	12,710	0
Accrued Interest Payable	3,117	0	0	3,117	0
Current Bond Principle Payable	460,000	0	0	460,000	0
Sub-total Current Liabilities Payable From Restricted Assets	475,827	0	0	475,827	0
Total Current Liabilities	3,915,001	485,049	1,143,860	5,543,910	1,085,435
Noncurrent Liabilities					
Compensated Absences Payable	17,054	11,920	1,263	30,237	29,894
Loans and Contracts Payable	1,745,145	0	0	1,745,145	0
Bonds Payable	475,000	0	0	475,000	0
Total Noncurrent Liabilities	2,237,199	11,920	1,263	2,250,382	29,894
Total Liabilities	6,152,200	496,969	1,145,123	7,794,292	1,115,329
Net Position					
Net Investment in Capital Assets	84,102,237	54,256,797	0	138,359,034	7,872,431
Restricted for					
Debt Service	488,200	0	0	488,200	0
Unrestricted	24,664,758	15,904,021	1,832,393	42,401,172	21,223,819
Total Net Position	109,255,195	70,160,818	1,832,393	181,248,406	29,096,250

City of Kirkland
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the fiscal year ended December 31, 2012

	Business-type Activities Enterprise Funds			Total	Governmental
	Water/Sewer	Surface Water	Solid Waste		Activities Internal Service Funds
Operating Revenues					
Intergovernmental	0	0	0	0	78,854
Charges for Services	20,696,708	8,417,593	12,746,090	41,860,391	19,366,427
Miscellaneous Revenues	369,683	84,875	691	455,249	525,322
Total Operating Revenues	21,066,391	8,502,468	12,746,781	42,315,640	19,970,603
Operating Expenses					
Administrative and General	3,076,654	2,965,107	1,022,192	7,063,953	10,930,941
Supplies	0	0	0	0	103,779
Maintenance and Operations	13,228,145	1,402,545	11,391,011	26,021,701	5,723,225
Taxes	636,159	161,351	687,305	1,484,815	0
Depreciation	2,419,489	1,222,549	0	3,642,038	1,356,468
Total Operating expenses	19,360,447	5,751,552	13,100,508	38,212,507	18,114,413
Operating Income (Loss)	1,705,944	2,750,916	(353,727)	4,103,133	1,856,190
Nonoperating Revenues (Expenses)					
Interest and Investment Revenue	141,721	100,240	7,904	249,865	61,372
Grant Income	5,909	181,519	97,293	284,721	5,636
Interest Expense	(67,793)	0	0	(67,793)	0
Amortization	(19,980)	0	0	(19,980)	0
Gain (Loss) on Disposal of Capital Assets	(67)	(2,265)	0	(2,332)	3,009
Other Nonoperating Revenues/(Expenses)	0	(44,608)	(91,304)	(135,912)	521,949
Total Nonoperating revenues (expenses)	59,790	234,886	13,893	308,569	591,966
Income Before Contributions and Transfers	1,765,734	2,985,802	(339,834)	4,411,702	2,448,156
Capital Contributions					
Contributions	1,722,276	472,673	0	2,194,949	0
Transfers In	0	0	0	0	1,769,504
Transfers Out	(100,000)	(465,313)	(300,000)	(865,313)	(1,158,009)
Change in Net Position	3,388,010	2,993,162	(639,834)	5,741,338	3,059,651
Total Net Position - Beginning	105,867,185	67,167,656	2,472,227	175,507,068	26,036,599
Total Net Position - Ending	109,255,195	70,160,818	1,832,393	181,248,406	29,096,250

The notes to the financial statements are an integral part of this statement.



City of Kirkland
Statement of Cash Flows
 Proprietary Funds
 For the fiscal year ended December 31, 2012
 Increase in Cash and Cash Equivalents

Page 1 of 2

	Business-type Activities Enterprise Funds				Governmental Activities- Internal Service Funds
	Water/Sewer	Surfacewater	Solid Waste	Total	
Cash Flows From Operating Activities					
Cash Received From Customers	20,691,410	8,397,890	12,118,235	41,207,535	0
Cash Received From Interfund Charges	0	0	0	0	10,929,354
Contributions Received from Employees and Employer	0	0	0	0	8,142,290
Cash From Other Sources	437,363	32,297	432,847	902,507	690,002
Cash Paid to Suppliers for Goods and Services	(11,826,998)	(833,072)	(11,426,037)	(24,086,107)	(10,296,827)
Cash Paid to Employees for Services	(1,846,522)	(2,120,588)	(281,516)	(4,248,626)	(4,250,167)
Cash Paid in Lieu of Taxes	(857,739)	(161,906)	(847,982)	(1,867,627)	0
Cash Paid for Central Business Functions	(2,274,677)	(1,335,555)	(600,551)	(4,210,783)	(2,190,996)
Net Cash Provided by Operating Activities	4,322,837	3,979,066	(605,004)	7,696,899	3,023,656
Cash Flows From Noncapital Financing Activities					
Proceeds From Federal, State, Local Grants	0	35,249	86,552	121,801	5,636
Deposits	12,710	0	0	12,710	0
Grant Administration Expenditures	0	(51,559)	(98,157)	(149,716)	0
Transfers In	0	0	0	0	1,783,590
Transfers Out	(100,000)	(465,313)	(300,000)	(865,313)	(1,172,096)
Net Cash Provided by (Used for) Noncapital Financing Activities	(87,290)	(481,623)	(311,605)	(880,518)	617,130
Cash Flows From Capital and Related Financing Activities					
Proceeds From Project Cost Share	1,934	0	0	1,934	0
Capital Contributed	1,135,507	122,753	0	1,258,260	0
Contributions From (To) Other Funds and Governments	0	0	0	0	500,000
Proceeds From Sale of Assets and Insurance Recoveries	0	0	0	0	105,158
Proceeds From Capital Grants	5,909	243,344	0	249,253	0
Principal Payments on Notes, Capital Leases and Bonds	(1,152,178)	0	0	(1,152,178)	0
Interest Paid on Notes, Capital Leases and Bonds	(72,450)	0	0	(72,450)	0
Interest Received on Program Loans	30,870	0	0	30,870	0
Acquisition and Construction of Capital Assets	(2,012,534)	(2,572,377)	0	(4,584,911)	(2,226,418)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(2,062,942)	(2,206,280)	0	(4,269,222)	(1,621,261)
Cash Flows From Investing Activities					
Net (Increase) Decrease in Investments	(5,472,863)	(3,934,369)	163,082	(9,244,150)	(5,568,764)
Interest Revenue	97,442	94,355	7,905	199,702	77,535
Net Cash Provided by Investing Activities	(5,375,421)	(3,840,014)	170,987	(9,044,448)	(5,491,230)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,202,816)	(2,548,851)	(745,622)	(6,497,289)	(3,471,705)
Cash and Cash Equivalents, January 1	13,441,294	10,133,996	987,413	24,562,703	13,986,961
Cash and Cash Equivalents, December 31	10,238,478	7,585,145	241,791	18,065,414	10,515,257

City of Kirkland
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended December 31, 2012
Increase in Cash and Cash Equivalents

Page 2 of 2

	Business-type Activities Enterprise Funds				Governmental Activities- Internal Service Funds
	Water/Sewer	Surfacewater	Solid Waste	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	1,705,944	2,750,916	(353,727)	4,103,133	1,856,190
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities					
Depreciation	2,419,489	1,222,549	0	3,642,038	1,356,468
<u>Changes in Assets and Liabilities</u>					
(Increase) Decrease in Accounts Receivable	(12,983)	106,129	(196,565)	(103,419)	110,082
(Increase) Decrease in Operating Due From Other Governments	11,400	709	0	12,109	(19,384)
(Increase) Decrease in Operating Due From Other Funds	(466)	0	0	(466)	0
(Increase) Decrease in Other Accounts Receivable	20,502	(52,578)	(691)	(32,767)	0
(Increase) Decrease in Capital Related Accounts Receivable	0	0	0	0	26,216
(Increase) Decrease in Operating Inventories	58,707	(9,490)	0	49,217	7,148
(Increase) Decrease in Insurance Recovery Accounts Receivable	0	0	0	0	8,227
(Increase) Decrease in Assessments	(1,770)	0	0	(1,770)	0
(Increase) Decrease in Prepayments	11,945	10,545	1,387	23,877	19,370
(Increase) Decrease in Projects in Process	0	65,103	0	65,103	0
Increase (Decrease) in Capital Accounts Payable	0	0	0	0	172
Increase (Decrease) in Operating Accounts Payable	30,638	17,351	61,636	109,625	(28,823)
Increase (Decrease) in Claims Payable	0	0	0	0	2,182
Increase (Decrease) in Operating Due to Other Governments	48,949	(13,336)	(120,042)	(84,429)	(11,702)
Increase (Decrease) in Operating Due to Other Funds	112	(2,686)	0	(2,574)	(13,908)
Increase (Decrease) in Wages Payable	7,236	19,102	1,014	27,352	16,531
Increase (Decrease) in Compensated Absences Payable	21,435	(8,707)	1,984	14,712	975
Increase (Decrease) in Revenue Collected in Advance	1,699	(126,541)	0	(124,842)	(306,090)
Net Cash Provided by Operating Activities	4,322,837	3,979,066	(605,004)	7,696,899	3,023,656
<u>Noncash Investing, Capital and Finance Activities</u>					
Capital Contributions	580,470	349,920	0	930,390	0
Change in Fair Value of Investments	(9,511)	(7,283)	(890)	(17,684)	(6,412)

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Fiduciary Net Position
Trust and Agency Funds
December 31, 2012

	Firefighter's Pension	Agency Funds
Assets		
Cash and Cash Equivalents	829,391	115,516
Investments, at fair value:		
Government Sponsored Enterprise Securities	916,015	0
Deposits	0	1,324,903
Total Assets	1,745,406	1,440,419
Liabilities		
Current Liabilities		
Accounts Payable	0	0
Due to Other Governments	0	100,242
Deposits	0	1,340,177
Total Liabilities	0	1,440,419
Net Position		
Held in Trust for Pension Benefits	1,745,406	0
Total Net Position	1,745,406	0

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Changes in Fiduciary Net Position
 Firefighter's Pension Fund
 For the Fiscal Year Ended December 31, 2012

	Firefighter's Pension
Additions	
Fire Insurance Premium Contributions	79,217
Fair Value in Investment	8,305
Total Additions	87,522
Deductions	
Benefit Payments	12,294
Administrative Expenses	7,625
Total Deductions	19,919
Net Increase (Decrease)	67,603
Net Position Beginning of Year	1,677,803
Net Position End of Year	1,745,406

The notes to the financial statements are an integral part of this statement.



City of Kirkland
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year ended December 31, 2012

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City of Kirkland

Notes to the Basic Financial Statements
For Year Ended December 31, 2012

NOTE 1:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kirkland was incorporated on October 9, 1905, under the provisions of the Washington State Legislature and operates under a Council/City Manager form of government. The Council consists of seven nonpartisan members elected at large every two years to staggered four-year terms. The Mayor is elected from within the Council to serve a two-year term. The City Manager serves as the professional administrator of the City, and is responsible for coordinating all day-to-day operations and administration.

The accounting and reporting policies of the City of Kirkland, which conform to generally accepted accounting principles for governments, are regulated by the Washington State Auditor's Office. The City's significant accounting policies are summarized in the following notes.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No. 14 establishes standards for defining and reporting on the financial reporting entity and for reporting participation in joint ventures. The City's Comprehensive Annual Financial Report includes all funds and organizations that are controlled by or dependent on the City. Control by the City was determined on the basis of budget adoption, taxing authority, and resource allocation criteria. Dependence on the City was determined by the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. Applying these criteria, as outlined in GASB Statement 14, the City has no relationships that qualify as component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City of Kirkland considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, utility taxes, gambling and admissions taxes, and franchise fees associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City of Kirkland.

The City of Kirkland reports the following major Governmental funds:

General Fund	is the general operating fund of the City. It accounts for all financial resources and transactions of the City not required to be accounted for in another fund. In some documents, this fund is referred to as the Current Expense Fund.
Excise Capital Improvement Fund	accounts for the administration of real estate excise taxes set aside for municipal capital improvements.
General Capital Projects Fund	accounts for the acquisition and construction of capital projects funded from general revenue sources.
Transportation Capital Projects Fund	accounts for the acquisition and construction of transportation related capital projects in which many of the projects are financed through grants.

The City of Kirkland reports the following major Proprietary Funds:

Water/Sewer Operating Fund	accounts for the maintenance, operation, and minor construction of water and sewer systems activity of the Water/Sewer Utility.
Surface Water Management Fund	accounts for the maintenance, operation, and minor appurtenances, including drainage and public retention/detention systems, and related infrastructure activity of the Surface Water Management Utility.

Solid Waste Fund accounts for all monies collected for solid waste and recycling services, the majority of which are provided through a private contractor.

Additionally, the City of Kirkland reports the following fund types:

Internal Service Funds account for equipment rental, information technology, facilities services and health benefits provided to other departments of the City on a cost reimbursement basis.

Firefighter's Pension Trust accounts for a single-employer defined benefit system established under State law to provide retirement and disability benefits for eligible firefighters.

Agency Funds account for assets held by the city as an agent for private individuals or other governments. The intergovernmental clearing and customer deposit funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations.

The City applies all applicable GASB pronouncements. The City also complies with all applicable pronouncements of the Financial Accounting Standards Board (FASB), opinions of the Accounting Principles Board (APB), and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are payments in-lieu of taxes and other charges between the government's utility functions and various other functions of the government.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

The proprietary fund statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utility funds and internal service funds are charges to customers for sales and services, benefit premiums, facility maintenance, technology upgrades, and vehicle replacement. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Budgetary Data

The City of Kirkland budgets its funds on a cash basis in accordance with the Revised Code of Washington 35A.33. In compliance with the code, budgets for all funds are established. Budgets

established for the proprietary funds are considered "management budgets," and as such, are not required to be reported in the Comprehensive Annual Financial Report.

The budget, as adopted, constitutes the legal authority for expenditures. Appropriations are authorized for two years, but must be reviewed by the City Council at the midpoint of the biennial period. The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. Transfers or revisions within funds are allowed, but supplemental or additional appropriations must be approved by the legislative authority. The City's budget is generally amended four times during the biennial period. The financial statements present the amended budgetary information as approved. All appropriations, except for capital projects, lapse at the end of the biennial period. Unexpended resources must be re-appropriated in the subsequent period.

Procedures for Adopting the Original Budget

The budget process and the time limits under which a budget must be developed are established by State law. The City follows the procedures outlined below in the year preceding the first year of the two-year budget to establish its biennial budget:

1. By late June, the City Manager requests budget priority input from the City Council.
2. By July, the official "budget call," as required by State law, is made to all department directors or fund managers by the City Manager and Director of Finance and Administration. Computerized budget worksheets, instructions, and materials are provided to the departments at that time.
3. Department/fund budget requests, on a line item basis, are submitted to the Director of Finance and Administration by late August.
4. Revenue estimates are developed and updated by the Finance and Administration Department throughout the budget process. Initial revenue estimates are prepared by late August.
5. During September, the Director of Finance and Administration meets with the City Manager to formulate budget strategy, goals, objectives, and ultimately recommendations. These recommendations are discussed with department management. By late October, a final budget proposal is agreed upon by the City Manager and all department directors.
6. A Preliminary Budget is prepared, printed, and filed with the City Clerk by November 1. It is presented to the City Council. Copies are made available to the public.
7. At least two public budget hearings are held; one in September and one in November. Public comment is received on revenue sources at the September hearing and on recommended programs and/or ideas for new programs at the November hearing.
8. The City Council meets in October/November for a series of budget discussion/review sessions to determine if there are any alterations that they wish to make to the City Manager's recommended budget.
9. Prior to the beginning of the next calendar year, the City Council, by simple majority of members present, adopts the final budget by ordinance.
10. The final budget is generally published during the first quarter of the following year, distributed to staff, and made available to the public.

Amending the Budget

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority.

The financial statements contain the original budget and budget information as of the financial statement report date. The original budget is the first complete appropriated budget. The final budget reflects any adjustments to the original budget, such as uses of or additions to reserves, transfers, allocations, supplemental appropriations, carryovers, and other legally authorized changes applicable for the fiscal period.

Assets, Liabilities and Equities

Cash and Investments

It is the City's policy to invest all temporary cash surpluses. Amounts are reported on the Balance Sheet as either Cash and Cash Equivalents or Investments. Cash and Cash Equivalents include currency on hand, demand deposits, and investments in the State Treasurer's Investment Pool. Per KMC 5.24.010, the City has established an investment committee consisting of the City Manager and the Director of Finance and Administration. The City's investment committee is limited, by State law, to purchasing investments in U.S. Treasury and Agency Securities, Certificates of Deposit with Washington State depositories that participate in the State Insurance Pool, bankers acceptances, the State Investment Pool, and in other investments authorized by law. City policy requires that all investments be purchased DVP (delivery vs. payment). Securities are held in safekeeping by a third-party custodian.

The City places available cash in a common investment fund. On an annual basis, interest earned on the City's common investment fund, less earmarked expenditures and all costs incurred in the administration of the common investment fund, are credited to the participating funds by determining annual average investment balance by the participating fund.

In accordance with GASB 31, investments are stated at fair value.

Receivables

The City of Kirkland recognizes receivables in its various funds based on the accounting basis required for that fund. These receivables include the following:

Property Taxes	Uncollected property taxes levied for the current year are reported as receivables at year-end. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property. Historically, all taxes have been collected; therefore, no allowance for uncollectible taxes is recorded.
Sales Tax	Sales Tax collected for November and December but not remitted by the state until the following year, are reported as receivables at year-end.
Other Taxes	Utility, Gambling, Admission Taxes, and Franchise Fees remitted after the end of the year for activity occurring during the prior year are reported as receivables at year-end.

Accounts Receivable Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services provided, including amounts owed for which billings have not yet been prepared.

Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes, and charges for services.

Interfund Transactions

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans receivable/payable. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

Purchases of materials and supplies are recorded as expenditures at the time of purchase in governmental funds; therefore, ending inventories are not reported on governmental fund balance sheets. These amounts are not considered material.

In proprietary funds a periodic inventory is maintained, in which the cost is capitalized when the inventory item is purchased and expensed when the item is consumed. The first in, first out valuation method which approximates market is used to value the inventory. A physical inventory is taken at year-end.

Restricted Assets and Liabilities

These accounts contain resources reserved for customer deposits and revenue bond debt service.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of 2 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets or those acquired through annexation are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Land, construction in progress, and works of art are not depreciated. Infrastructure acquired prior to fiscal years ended after June 30, 1980 is reported. Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 50
Improvements	5 - 50
Equipment	5 - 20
Infrastructure	7 - 100
Water Lines	20 - 60

Compensated Absences

The City records a liability for accumulated unused vacation leave and salary related payments associated with the payment of vacation leave. All vacation leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation leave is accumulated monthly at annual rates ranging from 104 hours to 288 hours depending on number of years of employment and union agreement. Earned vacation leave in excess of the established limits and not used within the year following its accrual will be forfeited without any severance pay or additional compensation. All outstanding vacation leave is payable upon resignation, retirement, or death, to all employees having completed one year of service except under special conditions listed in the Kirkland Municipal Code.

Sick leave is accrued at a rate of 8 hours for each month of the employee's service, or the equivalent of a 24 hour shift for fire employees. Unused sick leave may be accumulated from year to year to a maximum of 180 days. Fire and police employees who entered the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) prior to October 1, 1977, do not accumulate sick leave, because they have unlimited disability coverage under state retirement law. Any outstanding sick leave is lost at termination of employment.

In January 1985, the City Council passed Ordinance 2844 wherein Section 10F eliminated an employee's ability to cash out any unused sick leave upon resignation or retirement. At this time, certain bargaining units were given the option to freeze their unused sick leave to be paid at 1984 wage rates upon resignation or retirement. There are 2 employees currently employed by the City who chose to freeze the unused sick leave for a total of \$1,321 benefits payable.

In 2005, contracts with public safety bargaining units under the LEOFF II Retirement System agreed to allow conversion of accrued sick leave to a retiree medical account upon retirement from the City. Upon normal or disability retirement, the City is responsible to contribute an amount equal to fifty percent of the cash value of the employee's sick leave balance into a trust fund to be used for the retiree's health related expenses. Contribution amounts may not exceed \$10,500 for 2012.

Outstanding sick leave at year end for all other employees is not accrued, because payment cannot be deemed probable nor can the amount be reasonably estimated.

Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance

costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Unearned Revenues

Unearned revenues are receivables that are measurable but not yet available in the governmental funds financial statements. Accordingly, they are not recorded as revenue. The balance sheet records the receivable but includes an unearned revenue as the offset. The unearned revenues include uncollected property taxes levied and business license fees collected in 2012 for 2013.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

New Accounting Standards

For the year ended December 31, 2012, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position.

The City also chose to adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, earlier than required. This statement classifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

Net Position

In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance

In the fund financial statements, governmental funds report fund classification that comprise a hierarchy based on the extent to which the City is bound to honor constraints on how the amounts in those funds can be spent. Amounts that are restricted by specific purposes stipulated by external resource providers, imposed by law through constitutional provisions or enabling legislation are classified as restricted fund balance. The committed fund balance classification includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision making authority. The City Council is the highest level of decision making authority and by adoption of an ordinance prior to year end can commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation.

Amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Assignments are made by the City

Manager or Finance Director based on Council direction. Non-spendable fund balances include amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact. Unassigned fund balance represents a residual classification for the general fund and includes all amounts not contained in the other classifications. These amounts are technically available for any purpose.

In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements the City assumes a certain flow assumption. The City considers a restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Committed fund balance is depleted next, followed by assigned fund balance. Unassigned fund balance is applied last.

**NOTE 2:
RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of aggregated differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position.

The Governmental Funds Balance Sheet includes a reconciliation between total fund balance and total net position as reported in the Government-Wide Statement of Net Position. The details of the aggregated differences are presented below.

Other long-term assets are not available to pay for current period expenditures and therefore deferred in the funds:

Municipal Court	1,896,697
Negative Net Pension Obligation	1,023,354
Deferred Charges/Discount	364,942
Bond Subsidy	49,959
Net Adjustment	<u><u>\$3,334,952</u></u>

Some liabilities are not due and payable in the current period and are not reported in the funds:

Bonds Payable	46,709,687
Compensated Absences	2,562,199
Net OPEB Obligation	2,641,953
Accrued Interest Payable	179,490
Deferred Charges/Premium	182,468
Net Adjustment	<u><u>\$52,275,797</u></u>

Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Position at their net depreciable value:

Capital Assets	916,805,432
Depreciation	(128,672,506)
Net Capital Assets Adjustment	<u><u>\$788,132,926</u></u>

Explanation of aggregated differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.

The Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances for governmental funds and changes in net position of governmental activities as reported in the Government-Wide Statement of Activities. The details of the aggregated differences are presented below.

Governmental funds report capital outlays as expenditures. The Statement of Activities allocates the cost of capital outlay over their estimated useful lives as depreciation.

Capital Outlays	12,212,995
Depreciation Expense	(5,174,244)
Contributed Infrastructure	1,219,236
Park Donation	15,000
CIP Closures	(108,159)
Net Adjustment	<u>\$8,164,828</u>

The proceeds from the issuance of long-term debt provide current financial resources to governmental funds and are reported as revenues. Repayments of long-term debt use current financial resources and are reported as expenditures in governmental funds. However, neither the receipt of debt proceeds nor the payment of debt principal affect the Statement of Activities, but are reported as increases and decreases in noncurrent liabilities in the Statement of Net Position.

Debt Retired	2,545,313
Bond (Premium) Discount	6,080
Net Adjustment	<u>\$2,551,393</u>

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Municipal Court Receivable	57,710
Negative Pension Obligation	135,518
Bond Subsidy	49,959
Net Adjustment	<u>\$243,187</u>

Expenditures in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in governmental funds:

Net OPEB Obligation	(317,653)
Compensated Absence Payable	7,643
Accrued Interest Payable	7,312
Net Adjustment	<u>(\$302,698)</u>

**NOTE 3:
DEPOSITS AND INVESTMENTS**

Deposits

The City of Kirkland's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

Cash held in the Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). This pool represents an interest in a group of securities and has no specific security subject to custodial risk. The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

Investments

All surplus cash is invested in accordance with an investment policy approved by Kirkland City Council. State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080). Eligible investments which the City held at year end include Government Sponsored Enterprises (GSE's) securities, US Agency backed securities, Washington State Local Government Investment Pool, obligations of state and local government agencies, and FDIC and PDPC Insured Bank Deposits. The fair value of the City's position in the Washington State Local Government Investment Pool is the same as the value of the pool shares.

Credit Risk

Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The City's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The credit ratings on securities held by the City of Kirkland on December 31, 2012 are listed below:

<u>Issuer</u>	<u>Rating Agency</u>	<u>Credit Rating</u>
U.S. agencies and GSE's	Standard & Poor's Moody's	AA+ Aaa
Grant County WA Public Utility District	Moody's Standard & Poor's	Aa3 AA-
Seattle Museum	Moody's Standard & Poor's	Aa1 AAA
Washington State COPS	Moody's	Aa2

The Washington State Local Government Investment Pool is a 2a7-like pool and is unrated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City of Kirkland would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's Investment Policy requires that all security transactions entered into by the City of Kirkland will be conducted on a delivery-versus-payment (DVP) basis and will be held in safekeeping by a third party custodian. All of the City's securities at year end were held in safekeeping by a third party custodian.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. It is the City's policy to diversify its investments by security type and institution. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 30% of the entity's total investment portfolio will be invested in a single security type, issuer or financial institution.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to 3 years. The portfolio weighted maturity at year end was 2.16 years.

The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days. The Average Days to Maturity on December 31, 2012 was 50 days.

City of Kirkland Cash, Deposits and Investments
Segmented Time Distribution
At December 31, 2012

Investment Type	Fair Value*	6 Months or Less	7 to 12 Months	13 to 24 Months	25 to 36 Months	37 to 48 Months	49 to 60 Months
Federal Agricultural Mortgage Corporation callable	11,228,963						11,228,963
Federal Farm Credit Bank callable	19,960,075	4,977,370	4,991,195			9,991,510	
Federal Home Loan Bank callable	5,017,865	5,017,865					
Federal National Mortgage Association callable	25,022,945					4,992,525	20,030,420
US Agency backed Aid-Israel Strips	3,466,272					3,466,272	
Grant County, WA Public Utility District #2	2,192,376 *	2,192,376					
Seattle Museum Development Authority	1,268,347					1,268,347	
Washington State Certificates of Participation	2,470,250 *			2,470,250			
Opus Bank CD	8,018,692				8,018,692		
FDIC or PDPC Insured Bank Deposits	25,977,826	25,977,826					
	\$ 104,623,611	38,165,437	4,991,195	2,470,250	8,018,692	19,718,654	31,259,383
Uncategorized Cash and Deposits							
Fire District #41 Funds held by King County	13,983						
Washington State Local Government Investment Pool	45,342,010						
Cash on Hand	18,800						
	\$ 45,374,793						
Total Cash, Deposits and Investments	\$ 149,998,405						

The callable bonds are assumed to be called on their first call dates as interest rates remain low.

*Investments are presented at fair value reduced by amortized cost.

**NOTE 4:
PROPERTY TAXES**

The King County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed on a daily basis.

Property Tax Calendar:

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment tax payments is due.
May 31	Assessed value of property established for next year's levy.
October 31	Second installment is due.

Assessed values are established by the County Assessor at 100 percent of fair market value. At a minimum, real property must be revalued every four years. King County began an annual revaluation program in 1995.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. Kirkland's maximum property tax levy rate has been reduced from \$3.60 to \$3.10 due to annexation to the King County Library District.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

The City's regular tax levy in 2012 was \$1.36744 per \$1,000 on an assessed valuation of \$14,672,056,829 for a total regular levy of \$20,063,060. The excess tax levy, which only applies in the pre-annexation boundaries, was \$0.08909 per \$1,000 for an excess levy of \$924,325. Excess tax levies approved by the voters are not subject to the above limitations.

**NOTE 5:
CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2012, was as follows:

Governmental Activities	Balance <u>01/01/12</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/12</u>
Capital Assets, Not Being Depreciated:				
Land	583,746,692	4,871,728	1,864	588,616,556
Construction in Progress	29,792,475	12,087,110	13,799,908	28,079,677
Artwork	1,629,966	0	0	1,629,966
Total Capital Assets, Not Being Depreciated	<u>\$ 615,169,133</u>	<u>16,958,838</u>	<u>13,801,772</u>	<u>\$ 618,326,199</u>
Capital Assets, Being Depreciated:				
Buildings	39,521,861	0	0	39,521,861
Improvements	26,393,008	254,741	0	26,647,749
Machinery and Equipment	15,838,641	2,605,194	722,028	17,721,807
Infrastructure	221,080,694	9,549,760	0	230,630,454
Total Capital Assets, Being Depreciated	<u>\$ 302,834,204</u>	<u>12,409,695</u>	<u>722,028</u>	<u>\$ 314,521,871</u>
Less Accumulated Depreciation for:				
Buildings	10,979,018	918,938	0	11,897,956
Improvements	12,509,475	1,958,635	0	14,468,110
Machinery and Equipment	8,511,145	1,441,990	620,099	9,333,036
Infrastructure	98,932,462	2,211,149	0	101,143,611
Total Accumulated Depreciation	<u>\$ 130,932,100</u>	<u>6,530,712</u>	<u>620,099</u>	<u>\$ 136,842,713</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 171,902,104</u>	<u>5,878,983</u>	<u>101,929</u>	<u>\$ 177,679,158</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 787,071,237</u></u>	<u><u>22,837,821</u></u>	<u><u>13,903,701</u></u>	<u><u>\$ 796,005,357</u></u>
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land	1,021,084	1,004,787	0	2,025,871
Construction in Progress	4,873,020	3,760,012	1,549,802	7,083,230
Total Capital Assets, Not Being Depreciated	<u>\$ 5,894,104</u>	<u>4,764,799</u>	<u>1,549,802</u>	<u>\$ 9,109,101</u>
Capital Assets, Being Depreciated:				
Buildings	47,591	0	0	47,591
Improvements	180,263,519	2,468,395	6,911	182,725,003
Total Capital Assets, Being Depreciated	<u>\$ 180,311,110</u>	<u>2,468,395</u>	<u>6,911</u>	<u>\$ 182,772,594</u>
Less Accumulated Depreciation for:				
Buildings	44,481	3,110	0	47,591
Improvements	46,773,398	3,638,928	4,579	50,407,747
Total Accumulated Depreciation	<u>\$ 46,817,879</u>	<u>3,642,038</u>	<u>4,579</u>	<u>\$ 50,455,338</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 133,493,231</u>	<u>(1,173,643)</u>	<u>2,332</u>	<u>\$ 132,317,256</u>
Business-type Activities Capital Assets, Net	<u><u>\$ 139,387,335</u></u>	<u><u>3,591,156</u></u>	<u><u>1,552,134</u></u>	<u><u>\$ 141,426,357</u></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General Government	1,057,925
Judicial	117,378
Security of Persons and Property	1,346,753
Human Services	0
Physical Environment	630,796
Transportation (includes depreciation of general infrastructure assets)	2,216,423
Economic Environment	9,093
Culture and Recreation	1,152,344
Governmental Activities Depreciation Expense	<u>\$ 6,530,712</u>

Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets as allocated above.

Business-type Activities	
Water/Sewer Utility	2,419,489
Surface Water Utility	1,222,549
Solid Waste Utility	0
Business-type Activities Depreciation Expense	<u>\$ 3,642,038</u>

Construction Obligations

The City of Kirkland has active construction projects as of December 31, 2012. The projects include:

<u>Project Function</u>	<u>Expenditures to Date</u>	<u>Remaining Commitment</u>
General Government	152,624	7,302
Sewer Utility	737,908	100,263
Surface Water Utility	147,720	7,068
Transportation	4,039,539	1,930,166
Water Utility	2,432,492	63,314
Total	<u>\$ 7,510,283</u>	<u>\$ 2,108,113</u>

NOTE 6: PENSION PLANS

State Systems

Substantially, all city full-time employees and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from DRS website at www.drs.wa.gov.

The following disclosures are made pursuant to GASB Statement 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

The Legislature established PERS in 1947. PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes. Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes elected officials, state employees, employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system), employees of legislative committees, community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts, and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are

established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest upon separation from PERS-covered employment.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired for 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on the job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with 5 years of service. The monthly benefit is two percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.

-With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return to work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contribution plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

-If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

-If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return to work rules.

PERS Plan 3 defined benefits retirement benefits are also actuarially reduced to reflect the choice of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost of living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. A member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on the job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A onetime duty related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% of AFC. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of average compensation.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75% of AFC, pay higher contributions; stop contributing to the Judicial Retirement Account (JRA); and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 to 15 percent based on member choice; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by PERS 3 member.

Members Participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	7.21%	7.21%	7.21%**
Employee	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** Plan 3 defined benefit portion only.

*** Minimum rate.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2012	\$32,126	\$1,215,845	\$226,215
2011	\$32,096	\$998,988	\$177,698
2010	\$34,585	\$853,349	\$146,922

Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

The Legislature established LEOFF in 1970. LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employee and employer contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<u>Term of Service</u>	<u>Percent of Final Average Salary</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to

service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months.) Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty related and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit. LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington State Health Care Authority.

A one-time duty related benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Non-vested	<u>3,113</u>
Total	27,658

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2012, the state contributed \$52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.16%	5.24%
Employee	0.00%	8.46%
State	n/a	3.38%

* The employer rates include the employer administrative expense fee currently set at 0.16%.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2012	\$ 171	\$922,331
2011	\$ 179	\$826,510
2010	\$ 144	\$822,209

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006, to September 30, 2006; and those full-time employees, hired on or after July 1, 2006, by a covered employer, that meet at least one of the PSERS eligibility criteria.

A "covered employer" is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, Liquor Control Board;
- Washington state counties;
- Washington state cities except for Seattle, Tacoma and Spokane;
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and have one of the following:

- Completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job.
- Primary responsibility to ensure the custody and security of incarcerated or probationary individuals.
- Limited authority to function as a Washington peace officer, as defined in RCW 10.93.020.
- Primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 member who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit;

and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

PSERS Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not a normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Non-vested	<u>4,020</u>
Total	4,203

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	<u>PSERS Plan 2</u>
Employer*	8.87%
Employee	6.36%

* The employer rate includes an employer administrative expense fee of 0.16%.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	<u>PSERS Plan 2</u>
2012	\$71,769
2011	\$56,679
2010	\$49,553

Volunteer Firefighters' Relief and Pension Fund

The Volunteer Firefighters' Relief and Pension Fund System is a cost-sharing multiple-employer retirement system which was created by the Legislature in 1945 under Chapter 41.24 RCW. It provides pension, disability and survivor benefits. Membership in the system requires volunteer service with a fire department of an electing municipality of Washington State. The system is funded through member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of moneys by the Washington State Investment Board. Members may elect to withdraw their contributions upon termination.

Firefighters' Pension

The City of Kirkland is the administrator of the Firefighters' Pension Plan which is a closed, single-employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.18. This plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All benefits and refunds of the plan are recognized when due and payable in accordance with the terms of the plan. Membership is limited to firefighters employed prior to March 1, 1970, when the LEOFF retirement system was established. The City's liability under the system is composed of all benefits for firefighters retired prior to March 1, 1970, and excess benefits over LEOFF for covered firefighters retired after March 1, 1970. No separate financial report is issued for the plan. Accordingly, the required supplemental information is included in this note.

Under State law, the Firefighters' Pension Plan is provided an allocation of 25% of all monies received by the State from taxes on fire insurance premiums. Other funding sources include interest earnings, member contributions made prior to the inception of LEOFF, and City contributions required to meet projected future pension obligations. Neither member nor employer contributions were made to the plan during the year as the actuary has determined that the current assets of the fund, along with future revenues from state fire insurance taxes and interest earnings will be sufficient to pay all future Firefighters' Pension Plan pension benefits.

Due to the small number of participants, the City recognizes no direct administrative costs with the exception of biennial valuation costs which are paid from assets of the fund.

Membership of the Firefighters' Pension Plan consisted of the following on December 31, 2012:

Retirees and beneficiaries receiving benefits	5
Active plan members	<u>0</u>
Total	5

Annual Pension Costs and Net Pension Obligation changes at December 31:

	2010	2011	2012
Annual Required Contribution (ARC)	0	0	0
Annual Normal Cost – Beginning of Year	0	0	0
Amortization of Unfunded Actuarial Liability (UAL) – Beginning of Year	(75,855)	(75,855)	(93,836)
Interest to End of Year	(3,034)	(3,034)	(3,753)
ARC at End of Year	(78,889)	(78,889)	(97,589)
Interest on Net Pension Obligation (NPO)	(25,052)	(30,170)	(35,513)
Adjustment to ARC	(42,927)	(53,365)	(64,999)
Annual Pension Cost (APC)	(61,014)	(55,694)	(68,103)
Employer Contributions	73,386	77,880	67,603
Change in NPO	(134,400)	(133,574)	(135,706)
NPO at Beginning of Year	(626,312)	(754,260)*	(887,834)
NPO at End of Year	(760,712)*	(887,834)	(1,023,354)

The negative net pension obligation has been recorded as a receivable on the City's government-wide statement of net position.
*the variance in NPO Ending 2010 and beginning 2011 is due to a new valuation completed January 1, 2012.

Schedule of Contributions from the Employer and Other Contributing Entities:

Year Ended December 31	Employer Contribution \$	Fire Insurance Premium Taxes \$	Interest Earned on Net Fund Balance \$	Annual Required Contribution*	Percentage Contributed
1998	0	40,759	18,159	-	-
1999	0	48,218	12,018	-	-
2000	0	27,006	23,174	-	-
2001	0	29,825	33,899	-	-
2002	(7,992)	33,969	0	-	-
2003	0	39,054	0	-	-
2004	0	46,833	0	(30,847)	-
2005	(3,634)	47,131	0	(30,847)	-
2006	(15,582)	55,586	42,653	(38,966)	-
2007	(8,605)	68,210	57,972	(38,966)	-
2008**	0	70,929	58,891	(43,292)	-
2009	0	67,634	33,503	(43,292)	-
2010	(7,625)	74,559	17,793	(78,889)	-
2011	0	77,880	14,200	(78,889)	-
2012	0	79,217	8,305	(97,589)	-

* The ARC is documented as 0 for negative amounts prior to 2004.

** Amount updated following January 1, 2010, valuation.

Schedule of Funding Progress:

Valuation Date	Actuarial Value of Assets \$ (in thousands)	Actuarial Accrued Liabilities Entry Age \$ (in thousands)	Unfunded Actuarial Accrued Liabilities \$ (UAAL)	Funded Ratio %	Covered Payroll \$ (in thousands)	UAAL as a Percentage of Covered Payroll %
1/1/2006	1,090	533	(557)	205	84	(663)
1/1/2008	1,305	469	(836)	278	90	(929)
1/1/2010	1,527	420	(1,107)	364	0	N/A
1/1/2012	1,678	396	(1,282)	424	0	N/A

Three Year Trend Information (in dollars):

Fiscal Year Ending	Annual Pension Cost (APC) \$	Contributions as a Percentage of APC %	Net Pension Obligation (NPO) \$
12/31/10	(61,014)	NA	(760,712)
12/31/11	(55,694)	NA	(887,834)
12/31/12	(68,103)	NA	(1,023,354)

The information presented in the preceding required schedule was determined as part of the actuarial valuations at the dates indicated or based on the same set of actuarial assumptions.

Actuarial cost method for all years:	Entry Age Normal Cost Method ⁽¹⁾
Amortization period:	UAAL amortized over a closed 30yr period, as of January 1, 2001 and an open 30 year period prior to January 1, 2001.
Asset valuation method:	Market value
Cost-of-living adjustments for all years:	CPI, Seattle-Everett area

Actuarial economic assumptions:

Investment rate of return	4.0%
Projected salary increases ⁽²⁾	3.75%
Consumer Price Index	2.75%
Projected annual growth in fire Insurance premium tax revenue	2.75%

(1) The Entry Age Cost Normal method was used to comply with GASB 25 and 27 reporting requirements. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by the future Normal Cost payments is called the Actuarial Liability. Since nearly all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Liability minus the actuarial value of the Fund's assets.

- (2) Projected salary increases are for future inflation only. Since the members have at least 20 years of service, no merit increases are assumed.

Since the fund is closed to additional participants and is fully funded, the City does not perform an actuarial study on a yearly basis.

Municipal Employees Benefit Trust

The Municipal Employees' Benefit Trust (MEBT) is a multiple-employer defined-contribution pension plan which was established as an alternative to the federal Social Security System. By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to U.S.C.A., Section 418(g), effective January 1, 1975. Employees who work 1,000 or more hours per year are eligible but not required to participate in the plan. There were 448 employees who participated in the program during 2012. The City's contribution for 2012 was \$1,901,456; employee contributions were \$2,505,041 during the same period. The rate the City must pay and the employee may pay is equal to the 2010 Social Security rate and does not change with the Federal Payroll Tax credit legislation.

Assets of the Plan consist of stocks, bonds, and guaranteed insurance contracts, and are not the property of the City and are not subject to the claims of the City's general creditors. The Plan is administered by the Plan Committee consisting of two members selected by the City and three members elected by plan members. The Plan Committee administers the MEBT Plan according to the Plan Document adopted by the City and all applicable IRS regulations. Plan provisions may be established or amended by a majority vote of the Plan Committee.

Actuarial determinations are not required because (1) long-term disability insurance and survivor income insurance are provided by a group insurance policy with the Standard Insurance Company, and (2) each participant shall at his normal retirement instruct the trustee to either (a) acquire a nonforfeitable, non-transferable annuity contract, (b) pay the retirement benefits from the employee's deferred saving account to which no contribution by the City or the participant can be added after retirement, or (c) pay a single lump-sum payment equal to the accumulated balance in the employee's deferred saving account as of his retirement date.

**NOTE 7:
OTHER POST EMPLOYMENT BENEFITS**

The City of Kirkland provides post-retirement health care benefits to LEOFF 1 retirees in accordance with RCW 41.26. Membership is limited to public safety personnel hired prior to March 1, 1970. All members' medical, hospital, dental and nursing care are covered at the discretion of the Retirement Board. At the end of 2012 there were 34 retirees receiving these benefits with 1 active employee eligible for these benefits when he retires.

For 2012, the City's cost of providing these benefits were as follows:

Medical premiums:	Insurance Premium Costs	\$ 465,975
	Direct Medical Costs	<u>67,344</u>
	Total Costs	<u>\$ 533,319</u>

Funding for LEOFF retiree healthcare costs is provided entirely by the City on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2006. The following table shows the City's annual OPEB cost for 2010, 2011 and 2012. The date of the last actuarial valuation done by Milliman was January 1, 2008. Beginning in 2009, the OPEB liability was calculated using the Alternative Measurement Method for GASB 45 by the Office of the State Actuary for the State of Washington. The net OPEB obligation of \$2,641,953 is included as a noncurrent liability on the Statement of Net Position.

	12/31/2010	12/31/2011	12/31/2012
Determination of Annual Required Contribution			
Normal Cost at Year End	10,518	10,144	12,027
Amortization of UAAL	937,700	887,799	950,776
Annual Required Contribution (ARC)	\$948,218	\$897,943	\$962,803
Determination of Net OPEB Obligation			
Annual Required Contribution	\$948,218	\$897,943	\$962,803
Interest on Prior Year Net OPEB Obligation	72,251	89,258	104,593
Adjustments to ARC	149,501	184,693	(111,831)
Annual OPEB Cost	870,968	802,508	850,973
Contributions Made	493,023	461,728	533,319
Increase in Net OPEB Obligation	\$377,945	\$340,780	\$317,654
Net OPEB Obligation - beginning of year	\$1,605,574	\$1,983,519	\$2,324,299
Net OPEB Obligation – end of year	\$1,983,519	\$2,324,299	\$2,641,953

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2007, 2008, 2009, 2010, 2011 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2007	\$796,162	58.7%	\$708,429
12/31/2008	\$817,326	51.5%	\$1,104,302
12/31/2009	\$956,235	47.6%	\$1,605,574
12/31/2010	\$870,967	56.6%	\$1,983,519
12/31/2011	\$802,508	57.5%	\$2,324,299
12/31/2012	\$850,973	62.7%	\$2,641,953

Funding Status and Funding Progress

As of December 31, 2012, the plan was 0% funded. The accrued liability for benefits was \$10,210,906 and actuarial value of assets was \$0 resulting in a UAAL of \$10,210,906.

The City pays medical costs associated with the benefits described above on a pay-as-you-go basis. The City has funded \$618,000 of the liability in a reserve account and continues to set aside funding as the opportunity arises. This amount is not reflected in the actuarial value due because the funds are not in a separate trust fund.

Actuarial Assumptions

The actuarial assumptions are intended to estimate future experience of the members. Since our last valuation, both economic and demographic assumptions have been changed. The demographic assumptions were updated to reflect the latest experience for the Law Enforcement Officers' and Firefighters Retirement System prepared by the State Actuary.

Replacement of Terminated Members: The City's Firefighter's Pension and LEOFF 1 are closed groups. No new members are permitted.

Valuation of Assets: As of the valuation date, there are no assets set aside to pay for these benefits.

For years 2007 and 2008 the following methodologies were used to calculate the liability:

Actuarial Cost Method: The liabilities are calculated according to the Entry Age Normal (level of percentage of pay) funding method.

Economic Assumptions: Discount rate – 4.0%
 Medical Inflation rate – varied for 2008, 9% for 2009
 Long Term Care Inflation rate – 5%

Amortization Method: 30 year, closed as of January 1, 2006

Beginning in 2009, the City used the alternative measurement method permitted under GASB Statement 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2007, actuarial valuation report issued by the Office of the State Actuary. Healthcare costs and trends were determined by Milliman and used by the Office of the

State Actuary in the state-wide LEOFF 1 medical study performed in 2007. The results are based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

A required Schedule of Funding Progress, immediately following the Notes is provided to present multi-year trend information regarding the decrease in plan assets relative to the actuarial accrued liability for benefits.

NOTE 8: RISK MANAGEMENT

The City of Kirkland is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 153 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap and employee benefits liability. Limits are \$4 million per occurrence self insured layer and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductibles to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

No claims in any of the past three years exceeded the City's insurance coverage. None of the current claims or lawsuits made or expected to be made against the City appear to have any reasonable likelihood of significantly affecting the City's financial situation for 2012.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues, land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

Medical Self Insurance

On January 1, 2011 the City became self insured for medical insurance. The Medical Self Insurance Internal Service Fund accounts for the disbursement of actual medical and prescription claims, associated administrative costs, and reserves for the self insured program. Rates for the initial implementation year were established based upon industry averages and trends. In subsequent years the rates will be based upon historical data as well as market trends.

In order to mitigate its risk exposure the City holds individual and aggregate stop loss insurance. There were two claims in excess of the \$100,000 per person stop loss maximum in 2012. In accordance with GASB Statement 10, estimated liabilities are accrued for current outstanding claims and claims incurred but not reported (IBNR).

	<u>Beginning Of Year Liability</u>	<u>Incurred Claims Including IBNRs</u>	<u>Claim Payments</u>	<u>Unpaid Claims</u>
2011	\$ 0	\$ 5,140,580	\$ 4,636,937	\$ 503,643
2012	\$ 503,643	\$ 6,316,315	\$6,208,928	\$ 611,030

**NOTE 9:
LONG-TERM DEBT**

General Obligation Bonds are direct obligations of the City for which its full faith and credit are pledged. Debt service is paid from the Debt Service Funds. Debt service for voter approved issues is funded with special property tax levies. Debt service for City Council authorized or councilmanic issues is funded from regular property taxes and other general government revenues.

Revenue bond indebtedness issued to fund proprietary activities is recorded in the proprietary fund. Debt service payments are made from revenues generated by the proprietary fund.

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. The City currently has seven loans with principal outstanding of \$2,132,322. This debt will be repaid from Water/Sewer Fund revenues.

On December 21, 2010, the City issued \$35,345,000 in Limited Tax General Obligation Bonds (Build America Bonds – Direct Payment) with a net interest cost of 3.53 percent and final payment on December 1, 2040. The federal subsidy rate on the bonds is 35 percent of the interest paid by the issuer (ie: the City). The proceeds from these bonds are being used to pay the costs of reimbursing previously incurred capital expenditures (designated for reimbursement) associated with the purchase of property, improvements and modifications for use as a public safety facility for the City and refurbishing and furnishing the public safety facility. On Friday, March 1, 2013, the sequestration provisions of the Budget Control Act of 2011 (“Sequestration”) went into effect. As a result, according to the Internal Revenue Service, federal subsidy payments relating to Direct-Pay Tax Credit Bonds will be reduced by 8.7 percent of the amount that would otherwise have been paid to the issuer.

**Limited Tax General Obligation Bonds, 2010
(Taxable Build America Bonds-Direct Payment)**

Year Ending December 31	Principal	Gross Interest	Interest Subsidy	Net Totals
2013	645,000	1,712,880	599,508	1,758,372
2014	655,000	1,703,205	596,122	1,762,083
2015	990,000	1,691,415	591,995	2,089,420
2016	1,010,000	1,669,635	584,372	2,095,263
2017	1,030,000	1,641,860	574,651	2,097,209
2018-2022	5,115,000	7,662,895	2,682,013	10,095,882
2023-2027	5,475,000	6,543,220	2,290,127	9,728,093
2028-2032	6,470,000	5,014,928	1,755,225	9,729,703
2033-2037	7,775,000	3,010,456	1,053,660	9,731,796
2038-2040	5,405,000	650,360	227,626	5,827,734
Total	\$ 34,570,000	\$ 31,300,854	\$ 10,955,299	\$ 54,915,555

On May 26, 2011, Fire Protection District 41 issued \$4,000,000 Limited Tax General Obligation Bonds, 2011 at an interest rate of 3.2% and final payment on December 1, 2021. The bonds were issued to finance the Fire Station Consolidation Project. On June 1, 2011 Fire Protection District 41 dissolved when the City of Kirkland annexed all the territory served by the District. The outstanding debt remained an obligation of the taxable property which was annexed and therefore became the obligation of the City of Kirkland.

General obligation bonds currently outstanding are as follows:

Issue - Purpose	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2012	Due Within One Year
1995 Unltd G.O. Public Safety, Forbes Creek Fire Station	8/1/95	12/1/14	4.65 to 7.00	1,020,000	855,000	165,000	80,000
2003 Unltd. G.O. Park Acquisition and Improvements	1/30/03	12/1/22	4.408	8,400,000	3,425,000	4,975,000	405,000
*2010 LTGO Limited Tax General Obligation Bonds, 2010 (Taxable Build America Bonds-Direct Payment)	12/21/10	12/1/40	0.90 to 5.95	35,345,000	775,000	34,570,000	645,000
*2011 Limited Tax General Obligation Bond	5/26/11	12/1/21	3.20	4,000,000	345,313	3,654,687	356,451
*2011 Limited Tax General Obligation Refunding Bonds	9/2/11	12/1/21	1.20	4,255,000	910,000	3,345,000	945,000
Total				53,020,000	6,310,313	46,709,687	2,431,451

*Councilmanic

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending	Governmental Activities	
	Principal	Interest
December 31		
2013	2,431,451	2,151,056
2014	2,502,949	2,091,033
2015	2,014,817	2,026,230
2016	2,072,069	1,970,498
2017	2,134,715	1,907,017
2018-2022	10,428,686	8,260,488
2023-2027	5,475,000	6,543,220
2028-2032	6,470,000	5,014,928
2033-2037	7,775,000	3,010,456
2038-2040	5,405,000	650,360
Total	46,709,687	33,625,286

The revenue debt, issuance, redemption and current balance outstanding are as follows:

Issue - Purpose	Issue Date	Maturity Date	Interest Rate	Amount Issued	Redemptions to Date	Outstanding 12/31/2012	Due Within One Year
1993 Public Works Trust Loan Lake Street Sewer Line Replacement	8/25/1993	7/1/2014	1	823,368	780,033	43,335	43,335
1994 Public Works Trust Loan(A) Lake Washington Blvd Water Line Replacement	7/26/1994	7/1/2014	1	1,231,700	1,102,097	129,603	64,802
1994 Public Works Trust Loan(B) Lake Washington Blvd Sewer Line Replacement	7/26/1994	7/1/2014	1	1,165,500	1,042,134	123,366	61,683
1995 Public Works Trust Loan Lake Shore Plaza Lift Station	6/7/1995	7/1/2015	1	794,850	661,284	133,566	44,522
1999 Public Works Trust Loan Juanita Lift Station Replacement Project - Design	7/1/2000	7/1/2019	1	227,500	139,755	87,745	12,535
2001 Public Works Trust Loan Juanita Lift Station Replacement Project - Construction	11/14/2001	7/1/2021	0.5	1,848,000	921,283	926,717	102,969
2004 Public Works Trust Loan Central Way Sewer Replacement	9/1/2004	7/1/2024	0.5	1,086,300	398,310	687,990	57,332
2004 Water/Sewer Revenue Refunding Bonds	8/1/2004	6/1/2014	2.0 to 4.0	3,090,000	2,155,000	935,000	460,000
Total				\$10,267,218	\$7,199,896	\$3,067,322	\$847,178

The revenue debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
	2013	847,178
2014	818,842	19,679
2015	217,358	7,542
2016	172,836	6,170
2017	172,836	5,244
2018-2022	723,607	12,691
2023-2024	114,665	860
Total	\$3,067,322	\$93,636

City of Kirkland Credit Ratings and Bond Insurance Ratings

On November 29, 2010, Moody's Investors Service assigned a rating of Aa2 to City of Kirkland, Washington's Limited Tax General Obligation Bonds, 2010 (Taxable Build America Bonds – Direct Payment). On November 30, 2010, Standard & Poor's assigned a rating of AAA to the same bond issuance.

On April 23, 2010, Moody's Investors Service applied its Global Scale Rating to Kirkland's outstanding Unlimited Tax General Obligation Bonds, Limited Tax General Obligation Bonds and Water/Sewer Revenue Bonds.

On November 17, 2008, Standard and Poor's upgraded the City's Water and Sewer Revenue Bonds from "AA-" to "AAA" and on November 24, 2008, upgraded the City's General Obligation Bonds from "AA-" to "AAA."

On August 16, 2011, Standard and Poor's affirmed the City of Kirkland's AAA rating.

Moody's ratings for Kirkland are now as follows:

Unlimited Tax GO Bonds	Aa1
Limited Tax GO Bonds	Aa2
Water/Sewer Revenue Bonds	Aa2

The following bond issues of the City of Kirkland carry municipal bond insurance:

2003 UTGO Bonds – MBIA (now National Public Finance Guarantee)
2004 Water and Sewer Revenue and Refunding Bonds – MBIA

<u>MBIA</u>	<u>Current Rating</u>	<u>Rating Date</u>
S&P	BB	February 28, 2013
Moody's	Caa2	November 26, 2012

Compensated Absences

The City's liability for accrued compensated absences is recorded in the table of Changes in Long-Term Liabilities, NOTE 11. The governmental activities category includes a liability of \$149,471 for Internal Service Funds which are predominantly associated with governmental funds. The funds that incur liability for compensated absences are responsible for liquidating them in future periods based upon where the employee's salary is paid. The governmental funds which typically liquidate compensated absences include the General Fund and Parks Maintenance Fund.

**NOTE 10:
LEASES**

Operating Leases

Copier Leases

In 2011, the City entered into two 60 month leases for a Konica Minolta C652 and Konica Minolta C652. The total cost for the year ended December 31, 2012, was \$17,845. The future minimum payments for these agreements are summarized as follows:

2013	17,845
2014	17,845
2015	17,845
2016	<u>12,652</u>
Total	<u>\$ 66,187</u>

King County Housing Authority

Effective November 1, 2008, the City entered into a five year lease with King County Housing Authority to provide facilities for Parks Maintenance operations. Lease payments for 2012 totaled \$87,285. Future minimum payments are summarized as follows:

2013	<u>84,050</u>
Total	<u>\$ 84,050</u>

**NOTE 11:
CHANGES IN LONG-TERM LIABILITIES**

During the year ending December 31, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
<u>Governmental Activities</u>					
Bonds payable:					
General Obligation Bonds	49,255,000	0	2,545,313	46,709,687	2,431,451
Less					
Issuance Discount	(379,330)	0	(14,387)	(364,943)	0
Issuance Premium	202,935	0	20,460	182,475	0
Compensated Absences	2,718,337	2,497,748	2,504,415	2,711,670	2,176,557
Other post employment benefits	2,324,299	850,973	533,319	2,641,953	0
Governmental Activity long-term liabilities	<u>\$ 54,121,241</u>	<u>3,348,721</u>	<u>5,589,120</u>	<u>\$ 51,880,842</u>	<u>\$ 4,608,008</u>
<u>Business-Type Activities</u>					
Revenue Bonds	1,700,000	0	765,000	935,000	460,000
PWTF Loans	2,519,500	0	387,178	2,132,322	387,178
Compensated Absences	136,473	331,401	316,689	151,185	120,948
Business-type Activity long-term liabilities	<u>\$ 4,355,973</u>	<u>331,401</u>	<u>1,468,867</u>	<u>\$ 3,218,507</u>	<u>\$ 968,126</u>

**NOTE 12:
CONTINGENCIES AND LITIGATIONS**

As of December 31, 2012, there were damage claims and lawsuits pending against the City. However, management believes, and the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

**NOTE 13:
INTERFUND TRANSFERS**

Transfers are legally authorized transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended. Transfers occur for capital and operating reserves, capital purchases, debt service, indirect overhead and subsidies. Interfund transfers at December 31, 2012, were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds:		
General	429,054	6,269,087
Excise Capital Improvement	0	7,707,283
General Capital	3,332,851	1,873,342
Transportation Capital	9,666,440	0
Non Major Governmental Funds:		
Park Maintenance	28,270	0
Impact Fees	0	140,185
Debt Service Funds	2,787,100	0
Internal Service Funds	1,769,504	1,158,009
Proprietary Funds:		
Water/Sewer	0	100,000
Surface Water	0	465,313
Solid Waste	0	300,000
 Total Transfers In/Out	 <u>\$18,013,219</u>	 <u>\$18,013,219</u>

**NOTE 14:
JOINT VENTURES**

Eastside Narcotics Task Force

The Eastside Narcotics Task Force (ENTF) was formed by the cities of Bellevue, Kirkland, Redmond, Mercer Island, and Issaquah in 1981 for the purpose of mutual support in the fight against drug crimes. In 1990, ENTF engaged the support services of King County Prosecutor's Office. The King County Sheriff's Office joined ENTF in 2002 to also provide support in the fight against drug crimes. On May 3, 2010, the ENTF amended the Interlocal Cooperative Agreement to include The Washington State Patrol. As of October of 2009, Issaquah permanently withdrew its ENTF membership.

The task force is governed by an Executive Board whose members are composed of the chief law enforcement officer, or his/her designee, from each participating jurisdiction. The Board is responsible for formulating policy, establishing annual budgets, adding members, appointing the Administering Agency, and acquiring, holding, and disposing of real and personal property, and has final approval of expenditures and disbursements of revenues (seized and forfeited assets). A Commander is assigned who is an Officer from the Bellevue Police Department with a rank of Captain or higher, and is responsible for the operation of the task force and the accomplishment of the goals and objectives of the task force.

Member agencies share in the costs of the operation of the Task Force. All revenues are disbursed to the participating Agencies based on current participations and calculated each year. Current percentages are as follows:

Bellevue	53.9%
Redmond	9.7%
Kirkland	10.5%
Mercer Island	9.4%
Issaquah	2.4%
King County	11.2%
WSP	2.9%

Upon termination of the task force, equipment and proceeds will be divided equitably as determined by the board. The City's share of net assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring information can be obtained from Eastside Narcotics Task Force, c/o Carl Krikorian, Police Fiscal Manager, Bellevue Police Department, 450 110th Avenue NE, Bellevue, WA 98004 or PO Box 90012, Bellevue, WA 98009.

ARCH – Housing Coalition

In November 1992, the City of Kirkland joined the cities of Bellevue, Redmond, and King County to establish A Regional Coalition for Housing (ARCH). The agreement was most recently amended in 2010 which includes King County and the cities of Bellevue, Redmond, Bothell, Woodinville, Issaquah, Mercer Island, Newcastle, Beaux Arts, Clyde Hill, Hunts Point, Medina, Yarrow Point, Kenmore, Sammamish, and Kirkland.

ARCH's purpose is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by combining public funding with private-sector resources. Operating funding is provided by the member cities. ARCH identifies and prioritizes projects which the member cities fund directly through their own grants, Community Development Block Grants and HUD grants.

ARCH is governed by an Executive Board composed of a chief executive officer from each member. The Executive Board is responsible for review and approval of all budgetary, financial, policy and contractual matters. The Board is assisted by an administrative staff and a Citizen Advisory Board.

Each member city contributes operating revenues as specified in the annual budget for ARCH. Contributions from the member cities are based on each member's population. Contributions by member agencies are held in the ARCH Housing Trust Fund Account and dispersed by the Administering Agency for approved projects. The City contributed \$ 59,768.00 to ARCH in 2012.

Members may withdraw from the ARCH agreement by giving one year's written notice to the Executive Board, by December 31 of any year, of its intention to terminate, effective December 31 of the following year. Members remain legally and financially responsible for any obligation incurred while a member of ARCH. Upon dissolution, the agreement provides for distribution of all property and assets among the members based on the percentage of the total annual contributions during the period of the agreement paid by each member.

Budget monitoring information can be obtained from ARCH, c/o Art Sullivan, 16225 NE 87th Street, A-3, Redmond, WA 98052.

Cascade Water Alliance

In 1999, eight cities and districts joined together to provide water supply for current and future demands through the Cascade Water Alliance. The members entered into an interlocal agreement to enhance their ability to supply water to their respective service areas and the region by developing, owning, and operating regional water supply assets. The current members include five Cities and two Water and Sewer Districts. Collectively, the membership of the Alliance serves over 400,000 residents and 22,000 businesses in the Puget Sound Region.

Cascade Water Alliance charges its members for each additional connection to the Cascade system. Each member collects a Regional Capital Facilities Charge and remits to the Cascade Alliance. During 2012, the City of Kirkland remitted \$549,457.50 for this charge.

In April of 2006, the Cascade Water Alliance issued revenue bonds in the amount of \$55.2 million. The bonds were issued to cover the costs of carrying out a portion of the capital program described in the Cascade Watershed Management Plan. In October of 2009, the Cascade Water Alliance issued a series of water system revenue bonds with net proceeds to Cascade of \$80 million. The majority of the bond proceeds funded the acquisition of Lake Tapps, tribal settlement agreements, and limited Tacoma Cascade Pipeline expenditures. In December of 2012, the Cascade Water Alliance issued a series of water system revenue bonds for approximately \$48 million for the purposes of paying part of the cost of financing Capital Projects and providing for a Debt Service Reserve. The 2006, 2009 and 2012 bonds do not pledge the full faith and credit of any of the seven current members, nor do the bonds pledge any revenues except as the members commit under the Interlocal Contract which established Cascade Water Alliance.

Financial statement information can be obtained from Cascade Water Alliance by contacting Scott Hardin, Director of Finance and Administration, 520 112th Ave NE, Suite 400, Bellevue, WA 98004.

EPSCA

The Eastside Public Safety Communications Agency (EPSCA), an emergency regional radio access service provider operation, was established on May 26, 1992, by an interlocal agreement among the cities of Bellevue, Redmond, Kirkland and Mercer Island. The Agreement was amended in 1993, to include the City of Issaquah as an additional principal. EPSCA began principal operations in December 1995.

EPSCA is governed by an Executive Board, which is comprised of the Chief Executive officers of the Principals. The Executive Board is responsible for review and approval of all budgetary, financial, and contractual matters.

An Operations Committee, composed of the Chief of Police and Fire Chief of each Principal, reports to the Board and oversees budget preparation, rates, revenues, expenditures, policies and other operational issues. This Committee also includes representation from non-Principal EPSCA user agencies.

EPSCA has developed an Eastside radio communications system which is integrated with a regional radio communications network. Its capital funding derives from a September 15, 1992, voter-approved King County excess property tax levy of \$57,016,764. EPSCA's portion of the levy was \$10,004,469.

Operating revenues derive from fees charged to the Principals for communications services and from subscriber fees for communications services.

The interlocal agreement among the Eastside cities provides for a weighted vote according to the proportion of each Principal's system radios in relation to the total number of system radios used by all Principals. As of December 31, 2012, the weighted vote was as follows:

Bellevue	51.534%
Redmond	20.022%
Kirkland	16.788%
Mercer Island	6.246%
Issaquah	5.410%

These percentages are reviewed and adjusted annually at January 1 based on the number of radios on the system in use by current principals as of December 31 of the preceding year. Upon dissolution, the interlocal agreement provides for distribution of net assets among the Principals based on weighted voting percentages in force at the time of dissolution. The City's share of net assets is deemed immaterial and thus is not reflected in the financial statements.

Budget monitoring and compiled financial statements for EPSCA can be obtained from EPSCA, c/o Jessie Morgan, MS PSEPS, PO Box 97010, Redmond WA 98073-9710.

eCityGov Alliance

On March 25, 2002, the City of Bellevue City Council unanimously adopted a resolution establishing the eCityGov Alliance between the City of Bellevue and the Cities of Bothell, Burien, Issaquah, Kenmore, Kirkland, Mercer Island, Sammamish and Woodinville. Since then, additional cities and agencies have joined. The Alliance establishes on-line services through a jointly operated internet portal.

Expenditures consist of capital and operations costs as specified in the budget adopted by the eCityGov Alliance Executive Board, and Bellevue's administrative costs associated with performing duties as the Alliance's fiscal agent. Revenues consist of annual membership fees from the members of the eCityGov Alliance.

The interlocal agreement may be terminated if Principals holding at least 60% of the weighted vote of all of the Principals are in concurrence. Upon termination, all property acquired shall be disposed of as follows: (1) property contributed without charge by any member shall revert to the contributor; (2) all property purchased after the effective date of the interlocal agreement shall be distributed to the Principals based upon each Principal's proportional ownership interest at the time of the sale of the

property. The City's share of the net assets is deemed immaterial and thus not reflected in the financial statements.

Budget monitoring information may be obtained from City of Bellevue, Information Technology Department, c/o Mollie Purcell, P.O. Box 90012, Bellevue, WA 98009-9012.

NORCOM

In November of 2007, the City of Kirkland, with the cities of Bellevue, Bothell, Clyde Hill, Medina, Mercer Island, and Snoqualmie, along with Eastside Fire and Rescue, King County Fire Protection Districts 27 and 45, King and Kittitas County Fire Protection District 51, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire and Life Safety District entered into an interlocal agreement to establish and maintain a consolidated emergency service communications center. In 2008, the City of Redmond joined as a subscriber. Prior to the interlocal agreement, the formation efforts were carried out under a Joint Powers Agreement originally approved in 2005 and amended in 2006 and 2007. On July 1, 2009, the separate dispatch operations of the cities of Bellevue and Kirkland were combined and began operating as the North East King County Regional Public Safety Communications Agency (or NORCOM). NORCOM includes 911 telephone answering, computer aided dispatch of fire, police and EMS resources, public safety field technology and a records management system.

Operating revenues are provided by user fees charged to each member based on average call volume. For 2012, the City of Kirkland's share of these fees was \$2,331,477.

Additional financial information can be obtained from NORCOM, c/o Gwen Pilo, Finance Manager, P.O. Box 50911, Bellevue, WA 98015-0911.

Hazardous Materials Unit and Response Team

In January 1984, the City of Kirkland joined the cities of Bellevue, Redmond, Bothell, and King County Fire Protection Districts 16 and 36 to form a Hazardous Materials Unit and Response Team (HazMat). In December 1991, the agreement was modified to designate the City of Bellevue as the lead agency. Current members are the cities of Bellevue, Kirkland, Redmond, Bothell, Snoqualmie, and Duvall along with Eastside Fire & Rescue, Woodinville Fire & Life Safety, and King County Fire District 27.

The HazMat unit provides equipment and personnel for the management of hazardous material incidents as a normal function of fire protection services.

The HazMat team is governed by a Joint Board comprised of the Fire Chiefs of the member agencies plus one member from the HazMat team. The Joint Board is responsible for formulating policy, establishing annual budgets, and acquiring, holding, and disposing of real and personal property. With the exception of the member from the HazMat team, each representative on the Joint Board has a vote on all matters. The City of Bellevue has the administrative authority for operations conducted pursuant to the agreement and provides administrative and secretarial support to the Joint Board.

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual charges paid by each member over the life of the agreement. The City's share of net assets is deemed immaterial and thus is not reflected in the financial statements.

Operating revenues are provided by an annual charge assessed each member based on each member's property values and number of emergency incidents.

Budget monitoring information can be obtained from Eastside Hazardous Materials Joint Board, c/o Babette Bechtold, Bellevue Fire Department, PO Box 90012, Bellevue, WA 98004.

Community Connectivity Consortium

The City of Kirkland is among several public agencies in the area that have established the Community Connectivity Consortium. The consortium started in 2003 with a joint fiber project between the Lake Washington School District and the City of Kirkland. It has now expanded to include the Cities of Kirkland, Bellevue, Federal Way, Renton, Seattle, Algona, Auburn, Kent, Pacific, Puyallup, Tukwila; the Lake Washington School District, University of Washington, Bellevue College, Bellevue School District, King County Public Hospital District No 2 (Evergreen Healthcare), Renton School District, and Valley Communications Center. In 2011 the consortium was formally organized as a government agency.

The Consortium sets the terms and conditions for sharing fiber optic installation projects, outlines how the parties will work together on fiber projects and establishes the original backbone of the Fiber Consortium network through contributions of budget, fiber assets, conduit, right of way and staff expertise. It has built over 35 miles of fiber optic cable, creating strategic connection points along the way. The partners use the fiber network to connect schools and universities to enhance learning; to connect hospitals, medical facilities and clinics to improve health care; connect government facilities for public safety, transportation and other needs; and to provide an open access network to serve the public with wireless and broadband access.

The City contributed \$6,000 to the Consortium in 2012.

For additional information please contact Brenda Cooper, Board Chair, CIO City of Kirkland, bcooper@kirklandwa.gov.

**NOTE 15:
BUDGET TO GAAP RECONCILIATION**

The City's budget is prepared primarily on the cash basis of accounting; therefore, the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – for the General Fund, Excise Tax Capital Improvement Fund, Street Operating Special Revenue Fund, and Contingency Special Revenue Fund report revenues when received and expenditures when paid, instead of revenue and expenditure amounts as defined under the modified accrual basis of accounting. The following schedule reconciles revenues and expenditures on the budgetary basis to revenues and expenditures on the modified accrual basis as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances. With the implementation of GASB 54 the Street Operating Fund and Contingency Fund will continue to be budgeted and operational but will be consolidated with the General Fund for reporting purposes and reclassified on this reconciliation.

2012 Budget to GAAP Reconciliation

	General Fund	Excise Tax Capital Improvement	Street Operating Special Revenue	Contingency Special Revenue
Revenues on the Budgetary Basis	77,005,515	5,190,064	5,353,627	0
Increase (Decrease) due to accruals	393,323	289,823	0	0
Reclassification	5,353,627	0	(5,353,627)	0
Revenues on the GAAP Basis	<u>82,752,465</u>	<u>5,479,887</u>	<u>0</u>	<u>0</u>
Expenditures on the Budgetary Basis	67,966,250	0	4,583,103	0
Increase (Decrease) due to accruals	396,235	0	0	0
Reclassification	4,583,103	0	(4,583,103)	0
Expenditures on the GAAP Basis	<u>72,945,588</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other Financing Sources (Uses) on the Budgetary Basis	(4,500,007)	(7,707,283)	(1,335,636)	0
Increase (Decrease) due to accruals	0	0	0	0
Reclassification	(1,335,636)	0	1,335,636	0
Other Financing Sources (Uses) on the GAAP Basis	<u>(5,835,643)</u>	<u>(7,707,283)</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures on the Budgetary Basis	9,039,265	5,190,064	770,524	0
Increase (Decrease) due to accruals	(2,912)	289,823	0	0
Reclassification	770,524	0	(770,524)	0
Excess (Deficiency) of Revenues				
Over (Under) Expenditures on the GAAP Basis	<u>9,806,877</u>	<u>5,479,887</u>	<u>0</u>	<u>0</u>

**REQUIRED SUPPLEMENTARY INFORMATION
FIREFIGHTER'S PENSION PLAN
SCHEDULE OF FUNDING PROGRESS**
(rounded to thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2001	\$ 901	\$ 385	\$ (516)	234%	\$ 73	(707)%
January 1, 2004	1,015	547	(468)	186%	79	(592)%
January 1, 2006	1,090	533	(557)	205%	84	(663)%
January 1, 2008	1,305	469	(836)	278%	90	(929)%
January 1, 2010	1,527	420	(1,107)	364%	0	N/A
January 1, 2012	1,678	396	(1,282)	424%	0	N/A

**REQUIRED SUPPLEMENTARY INFORMATION
LEOFF 1 RETIREE MEDICAL AND LONG TERM CARE BENEFITS
SCHEDULE OF FUNDING PROGRESS**
(rounded to thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2006	\$ 0	\$ 11,360	\$ 11,360	0	% NA	% NA
January 1, 2008	0	12,505	12,505	0	% NA	% NA
December 31, 2009	0	10,724	10,724	0	% NA	% NA
December 31, 2010	0	10,070	10,070	0	% NA	% NA
December 31, 2011	0	9,534	9,534	0	% NA	% NA
December 31, 2012	0	10,211	10,211	0	% NA	% NA

Source: City of Kirkland, Actuarial Valuation of Firefighters' Pension Fund and Retiree Medical and Long-Term Care Benefits for LEOFF 1 Employees. Pension Fund Valuations are done every two years.

2009, 2010, 2011 and 2012 valuation amounts for the Medical and Long Term Care Benefits were done using the Alternative Measurement Method for GASB 45 as directed by the Office of State Actuary.



Fund Financial Statements and Schedules

NON MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are established to account for specific resources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

- The **Lodging Tax Fund** accounts for the City's tourism program and expenditures related to the operation of tourism-related facilities. The primary source of revenue is a one percent lodging tax instituted in January of 2002.
- The **Cemetery Operating Fund** accounts for the operation of the City's cemetery. The primary source of revenue is user fees.
- The **Parks Maintenance Fund** accounts for the maintenance and operation of park properties acquired and/or developed with a park bond passed in November 2002. The primary source of revenue is from a special property tax levy approved in November 2002.
- The **Impact Fees Fund** accounts for road and park impact fees initiated in 1999. Impact fees, and the interest earned on them, are deposited in this fund and transferred out to the capital projects funds to pay for road and park capacity projects approved in the Capital Improvement Program (CIP).

Debt Service Funds

Debt Service Funds account for the accumulation payment of general obligation bond principal and interest from governmental resources and the payment of special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

- The **Limited Tax General Obligation (LTGO) Bonds** (also called Councilmanic Bonds) can be issued with approval of the City Council. The debt is repaid from general revenues of the City.
- The **Unlimited Tax General Obligation (UTGO) Bonds** represent debt that was approved by voters for a specific purpose. In this case, citizens have agreed to levy property taxes to repay the debt generally over a twenty-year period.

City of Kirkland
Combining Balance Sheet
 Non Major Governmental Funds
 December 31, 2012

Page 1 of 2

Special Revenue

	Lodging Tax	Cemetery Operating	Parks Maintenance	Impact Fees
Assets				
Cash and Cash Equivalents	114,476	324,886	295,486	1,304,319
Investments	126,439	358,826	326,665	1,441,047
Receivables, Net of Allowances				
Taxes	28,992	0	15,715	0
Due From Other Governments	0	0	5,139	0
Total Assets	269,907	683,712	643,005	2,745,366
Liabilities				
Accounts Payable	84	1,638	5,822	0
Wages Payable	1,471	0	27,618	0
Due to Other Governments	0	0	302	0
Total Liabilities	1,555	1,638	33,742	0
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	0	0	15,834	0
Total Deferred Inflows of Resources	0	0	15,834	0
Fund Balances				
Restricted for				
Tourism	268,352	0	0	0
Parks and Recreation	0	0	593,429	685,414
Transportation	0	0	0	2,059,953
Debt Service	0	0	0	0
Assigned to				
Cemetery Operations	0	682,074	0	0
Total Fund Balances	268,352	682,074	593,429	2,745,366
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	269,907	683,712	643,005	2,745,366

City of Kirkland
Combining Balance Sheet
 Non Major Governmental Funds
 December 31, 2012

Page 2 of 2

Total Special Revenue	Debt Service		Total Debt Service	Non Major Governmental Funds Total
	LTGO	UTGO		
2,039,167	4,542	145,133	149,675	2,188,842
2,252,977	5,021	160,447	165,468	2,418,445
44,707	0	17,224	17,224	61,931
5,139	0	0	0	5,139
4,341,990	9,563	322,804	332,367	4,674,357
7,544	0	0	0	7,544
29,089	0	0	0	29,089
302	0	0	0	302
36,935	0	0	0	36,935
15,834	0	17,510	17,510	33,344
15,834	0	17,510	17,510	33,344
268,352	0	0	0	268,352
1,278,843	0	0	0	1,278,843
2,059,953	0	0	0	2,059,953
0	9,563	305,294	314,857	314,857
682,074	0	0	0	682,074
4,289,221	9,563	305,294	314,857	4,604,078
4,341,990	9,563	322,804	332,367	4,674,357

City of Kirkland
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Non Major Governmental Funds
 For the fiscal year ended December 31, 2012

Page 1 of 1

Special Revenue

	Lodging Tax	Cemetery Operating	Parks Maintenance	Impact Fees
Revenues				
Taxes and Assessments	220,725	0	1,209,025	0
Intergovernmental	0	0	0	0
Charges for Services	0	68,800	0	1,883,174
Investment Interest	1,127	3,172	0	9,243
Miscellaneous Revenues	0	1,725	4,691	0
Total Revenues	221,852	73,697	1,213,716	1,892,417
Expenditures				
Current				
Physical Environment	0	34,374	0	0
Economic Environment	187,373	0	0	0
Culture and Recreation	0	0	1,153,376	0
Debt Service				
Principal	0	0	0	0
Interest	0	0	0	0
Capital Outlay	0	1,200	0	0
Total Expenditures	187,373	35,574	1,153,376	0
Excess (Deficiency) of revenues				
Over (under) expenditures	34,479	38,123	60,340	1,892,417
Other Financing Sources (Uses)				
Sale of Capital Assets	0	38,816	0	0
Transfers In	0	0	28,270	0
Transfers Out	0	0	0	(140,185)
Total Other Financing Sources (Uses)	0	38,816	28,270	(140,185)
Net Change in Fund Balance	34,479	76,939	88,610	1,752,232
Fund Balances Beginning of Year	233,873	605,135	504,819	993,134
Fund Balances End of Year	268,352	682,074	593,429	2,745,366

City of Kirkland
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Non Major Governmental Funds
 For the fiscal year ended December 31, 2012

Page 1 of 2

Total Special Revenue	Debt Service		Total Debt Service	Non Major Governmental Funds Total
	LTGO	UTGO		
1,429,750	472,842	924,112	1,396,954	2,826,704
0	599,442	0	599,442	599,442
1,951,974	0	0	0	1,951,974
13,542	283	0	283	13,825
6,416	0	0	0	6,416
3,401,682	1,072,567	924,112	1,996,679	5,398,361
34,374	0	0	0	34,374
187,373	0	0	0	187,373
1,153,376	0	0	0	1,153,376
0	1,895,313	650,000	2,545,313	2,545,313
0	1,964,555	274,324	2,238,879	2,238,879
1,200	0	0	0	1,200
1,376,323	3,859,868	924,324	4,784,192	6,160,515
2,025,359	(2,787,301)	(212)	(2,787,513)	(762,154)
38,816	0	0	0	38,816
28,270	2,787,100	0	2,787,100	2,815,370
(140,185)	0	0	0	(140,185)
(73,099)	2,787,100	0	2,787,100	2,714,001
1,952,260	(201)	(212)	(413)	1,951,847
2,336,961	9,764	305,506	315,270	2,652,231
4,289,221	9,563	305,294	314,857	4,604,078

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
 General Capital Projects Revenue Fund
 For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	400,000	400,000	200,000	200,000	400,000	0
Intergovernmental	461,200	1,108,485	356,873	723,351	1,080,224	(28,261)
Investment Interest - Dedicated	311,700	311,700	213,300	98,400	311,700	0
Contributions/Donations	0	0	14,500	20,590	35,090	35,090
Other Income to Fund Balance/Assets	0	4,000,000	4,000,000	0	4,000,000	0
Total Revenues	1,172,900	5,820,185	5,088,526	1,287,446	6,375,972	555,787
Expenditures						
Current						
General Government	0	843,947	143,034	282,152	425,186	418,761
Security of Persons and Property	0	104,347	166,664	55,737	222,401	(118,054)
Physical Environment	0	48,000	0	0	0	48,000
Transportation	0	297,183	103,531	5,877	109,408	187,775
Culture and Recreation	0	81,500	1,040	1,901	2,941	78,559
Debt Service						
Debt Issue Cost	0	0	30,950	0	30,950	(30,950)
Capital Outlay	28,025,400	45,311,884	3,708,246	2,942,516	6,650,762	38,661,122
Total Expenditures	28,025,400	46,686,861	4,153,465	3,288,183	7,441,648	39,245,213
Excess of revenues over expenditures	(26,852,500)	(40,866,676)	935,061	(2,000,737)	(1,065,676)	39,801,000
Other Financing Sources (Uses)						
GO Bond Proceeds	23,614,600	0	0	0	0	0
Transfers In	3,237,900	4,595,581	1,513,648	3,332,851	4,846,499	250,918
Transfers Out	0	(431,459)	(769,872)	(1,873,342)	(2,643,214)	(2,211,755)
Total Other Financing Sources (Uses)	26,852,500	4,164,122	743,776	1,459,509	2,203,285	(1,960,837)
Net Change in Fund Balance	0	(36,702,554)	1,678,837	(541,228)	1,137,609	37,840,163
Fund Balances Beginning of Year	14,696,220	42,237,825	42,237,825	43,916,662	42,237,825	0
Fund Balances End of Year	14,696,220	5,535,271	43,916,662	43,375,434	43,375,434	37,840,163

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
 Transportation Capital Projects Revenue Fund
 For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Intergovernmental	18,751,574	21,270,418	2,896,581	2,478,509	5,375,090	(15,895,328)
Charges for Services	1,124,000	0	8,250	32,553	40,803	40,803
Fines and Forfeitures	0	0	46,222	0	46,222	46,222
Contributions/Donations	0	156,000	14,492	173,108	187,600	31,600
Total Revenues	19,875,574	21,426,418	2,965,545	2,690,155	5,655,700	(15,770,718)
Expenditures						
Current						
Transportation	0	691,900	2,292,724	3,422,902	5,715,626	(5,023,726)
Capital Outlay	18,796,000	32,007,874	4,956,206	8,194,662	13,150,868	18,857,006
Total Expenditures	18,796,000	32,699,774	7,248,930	11,617,564	18,866,494	13,833,280
Excess of revenues over expenditures	1,079,574	(11,273,356)	(4,283,385)	(8,927,409)	(13,210,794)	(1,937,438)
Other Financing Sources (Uses)						
Transfers In	7,223,000	8,329,975	4,441,084	9,666,440	14,107,524	5,777,549
Total Other Financing Sources (Uses)	7,223,000	8,329,975	4,441,084	9,666,440	14,107,524	5,777,549
Net Change in Fund Balance	8,302,574	(2,943,381)	157,699	739,031	896,730	3,840,111
Fund Balances Beginning of Year	1,845,397	3,158,298	3,158,298	3,315,997	3,158,298	0
Fund Balances End of Year	10,147,971	214,917	3,315,997	4,055,028	4,055,028	3,840,111

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Street Operating Special Revenue Fund
For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	7,721,896	7,721,896	4,814,377	3,112,810	7,927,187	205,291
Licenses and Permits	0	0	102,618	140,640	243,258	243,258
Intergovernmental	2,707,841	2,957,841	1,203,229	1,717,569	2,920,798	(37,043)
Charges for Services	73,452	124,806	119,728	110,519	230,247	105,441
Fines and Forfeitures	0	0	3,318	2,500	5,818	5,818
Contributions/Donations	0	0	150	0	150	150
Miscellaneous Revenues	448,000	448,000	247,262	269,589	516,851	68,851
Total Revenues	10,951,189	11,252,543	6,490,682	5,353,627	11,844,309	591,766
Expenditures						
Current						
Transportation	9,111,622	9,298,194	3,822,867	4,528,982	8,351,849	946,345
Capital Outlay	42,424	55,683	13,052	54,121	67,173	(11,490)
Total Expenditures	9,154,046	9,353,877	3,835,919	4,583,103	8,419,022	934,855
Excess of revenues over expenditures	1,797,143	1,898,666	2,654,763	770,524	3,425,287	1,526,621
Other Financing Sources (Uses)						
Transfers In	0	200,000	100,000	100,000	200,000	0
Insurance Recovery	0	0	818	0	818	818
Operating Transfers Out	(2,246,083)	(2,620,690)	(971,822)	(1,435,636)	(2,407,458)	213,232
Total Other Financing Sources (Uses)	(2,246,083)	(2,420,690)	(871,004)	(1,335,636)	(2,206,640)	214,050
Net Change in Fund Balance	(448,940)	(522,024)	1,783,759	(565,112)	1,218,647	1,740,671
Fund Balances Beginning of Year	2,916,750	3,263,983	2,160,945	5,047,742	2,160,945	(1,103,038)
Changes in Accounting Principle	0	0	1,103,038	0	1,103,038	1,103,038
Fund Balances End of Year	2,467,810	2,741,959	5,047,742	4,482,630	4,482,630	1,740,671

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
 Contingency Special Revenue Fund
 For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Intergovernmental	44,640	44,640	0	0	0	(44,640)
Total Revenues	44,640	44,640	0	0	0	(44,640)
Excess of revenues over expenditures	44,640	44,640	0	0	0	(44,640)
Other Financing Sources (Uses)						
Operating Transfers In	150,000	150,000	150,000	0	150,000	0
Total Other Financing Sources (Uses)	150,000	150,000	150,000	0	150,000	0
Net Change in Fund Balance	194,640	194,640	150,000	0	150,000	(44,640)
Fund Balances Beginning of Year	2,051,870	2,051,870	2,051,870	2,201,870	2,051,870	0
Fund Balances End of Year	2,246,510	2,246,510	2,201,870	2,201,870	2,201,870	(44,640)

City of Kirkland
Schedules of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Lodging Tax Special Revenue Fund
For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	375,550	386,975	205,583	219,477	425,060	38,085
Investment Interest	2,250	2,250	1,809	1,416	3,225	975
Contributions/Donations	1,500	1,500	0	0	0	(1,500)
Miscellaneous Revenues	140	140	0	0	0	(140)
Total Revenues	379,440	390,865	207,392	220,893	428,285	37,420
Expenditures						
Current						
Economic Environment	381,194	395,135	142,114	191,564	333,678	61,457
Total Expenditures	381,194	395,135	142,114	191,564	333,678	61,457
Excess of revenues over expenditures	(1,754)	(4,270)	65,278	29,329	94,607	98,877
Total Other Financing Sources (Uses)	0	0	0	0	0	0
Net Change in Fund Balance	(1,754)	(4,270)	65,278	29,329	94,607	98,877
Fund Balances Beginning of Year	116,549	146,384	146,384	211,662	146,384	0
Fund Balances End of Year	114,795	142,114	211,662	240,991	240,991	98,877

City of Kirkland
Schedules of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Cemetery Operating Special Revenue Fund
For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Charges for Services	66,000	66,000	68,680	68,800	137,480	71,480
Investment Interest	0	0	6,379	4,117	10,496	10,496
Miscellaneous Revenues	13,800	13,800	6,900	1,725	8,625	(5,175)
Total Revenues	79,800	79,800	81,959	74,642	156,601	76,801
Expenditures						
Current						
Physical Environment	66,153	66,417	29,893	33,864	63,757	2,660
Capital Outlay	16,000	16,000	9,600	1,200	10,800	5,200
Total Expenditures	82,153	82,417	39,493	35,064	74,557	7,860
Excess of revenues over expenditures	(2,353)	(2,617)	42,466	39,578	82,044	84,661
Other Financing Sources (Uses)						
Sale of capital assets	44,000	44,000	37,430	38,816	76,246	32,246
Operating Transfers Out	(58,735)	(112,930)	(112,930)	0	(112,930)	0
Total Other Financing Sources (Uses)	(14,735)	(68,930)	(75,500)	38,816	(36,684)	32,246
Net Change in Fund Balance	(17,088)	(71,547)	(33,034)	78,394	45,360	116,907
Fund Balances Beginning of Year	609,481	638,692	199,279	605,658	199,279	(439,413)
Changes in Accounting Principle	0	0	439,413	0	439,413	439,413
Fund Balances End of Year	592,393	567,145	605,658	684,052	684,052	116,907

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Parks Maintenance Special Revenue Fund
For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	1,677,638	2,040,565	956,691	1,209,454	2,166,145	125,580
Miscellaneous Revenues	14,400	22,900	2,959	4,690	7,649	(15,251)
Total Revenues	1,692,038	2,063,465	959,650	1,214,144	2,173,794	110,329
Expenditures						
Current						
Culture and Recreation	1,901,560	1,896,459	928,364	1,152,783	2,081,147	(184,688)
Total Expenditures	1,901,560	1,896,459	928,364	1,152,783	2,081,147	(184,688)
Excess of revenues over expenditures	(209,522)	167,006	31,286	61,361	92,647	(74,359)
Total Other Financing Sources (Uses)	0	28,270	0	28,270	28,270	0
Net Change in Fund Balance	(209,522)	195,276	31,286	89,631	120,917	(74,359)
Fund Balances Beginning of Year	441,525	496,600	496,600	527,886	496,600	0
Fund Balances End of Year	232,003	691,876	527,886	617,517	617,517	(74,359)

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Impact Fees Special Revenue Fund
For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Charges for Services	1,400,000	1,440,185	557,352	1,883,174	2,440,526	1,000,341
Investment Interest	7,155	7,155	7,906	10,894	18,800	11,645
Total Revenues	1,407,155	1,447,340	565,258	1,894,068	2,459,326	1,011,986
Excess of revenues over expenditures	1,407,155	1,447,340	565,258	1,894,068	2,459,326	1,011,986
Other Financing Sources (Uses)						
Transfers Out	(819,000)	(200,000)	(97,500)	(140,185)	(237,685)	(37,685)
Total Other Financing Sources (Uses)	(819,000)	(200,000)	(97,500)	(140,185)	(237,685)	(37,685)
Net Change in Fund Balance	588,155	1,247,340	467,758	1,753,883	2,221,641	974,301
Fund Balances Beginning of Year	293,918	524,628	524,628	992,386	524,628	0
Fund Balances End of Year	882,073	1,771,968	992,386	2,746,269	2,746,269	974,301

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
 Limited GO Debt Service Fund
 For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Intergovernmental	0	1,171,338	569,142	602,196	1,171,338	0
Total Revenues	0	1,171,338	569,142	602,196	1,171,338	0
Expenditures						
Debt Service						
Principal	4,557,011	2,985,313	1,090,000	1,895,313	2,985,313	0
Interest	485,018	3,847,273	1,882,718	1,964,555	3,847,273	0
Debt Issue Cost	0	48,680	48,679	0	48,679	1
Total Expenditures	5,042,029	6,881,266	3,021,397	3,859,868	6,881,265	1
Excess of revenues over expenditures	(5,042,029)	(5,709,928)	(2,452,255)	(3,257,672)	(5,709,927)	1
Other Financing Sources (Uses)						
Property Tax Fire District	0	480,173	0	472,842	472,842	(7,331)
Dedicated Investment Interest	0	0	0	282	282	282
Proceeds of Other Longterm Debt	0	75,000	0	0	0	(75,000)
Bond Premium	0	198,003	204,640	0	204,640	6,637
Bond Discount	0	(19,323)	(19,323)	0	(19,323)	0
Issuance of Longterm Debt	0	4,255,000	4,255,000	0	4,255,000	0
Refunded Amount to Escrow	0	(4,385,000)	(4,385,000)	0	(4,385,000)	0
Refunded Debt Escrow	0	(75,000)	0	0	0	75,000
Operating Transfers In	5,042,029	5,168,676	2,381,576	2,787,100	5,168,676	0
Total Other Financing Sources (Uses)	5,042,029	5,697,529	2,436,893	3,260,224	5,697,117	(412)
Net Change in Fund Balance	0	(12,399)	(15,362)	2,552	(12,810)	(411)

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
 Unlimited GO Debt Service Fund
 For the year ended December 31, 2012

	Original Budget 2011-2012	Final Budget 2011-2012	2011 Actual Amounts Budgetary Basis	2012 Actual Amounts Budgetary Basis	Actual 2011-2012 Biennium	Variance with Final Budget
Revenues						
Taxes and Assessments	1,838,311	1,838,311	914,502	923,212	1,837,714	(597)
Total Revenues	1,838,311	1,838,311	914,502	923,212	1,837,714	(597)
Expenditures						
Debt Service						
Principal	1,265,000	1,265,000	615,000	650,000	1,265,000	0
Interest	573,311	573,311	298,985	274,324	573,309	2
Total Expenditures	1,838,311	1,838,311	913,985	924,324	1,838,309	2
Excess of revenues over expenditures	0	0	517	(1,112)	(595)	(595)
Net Change in Fund Balance	0	0	517	(1,112)	(595)	(595)
Fund Balances Beginning of Year	300,095	306,176	306,176	306,693	306,176	0
Fund Balances End of Year	300,095	306,176	306,693	305,581	305,581	(595)

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided by one department to other City departments on a cost reimbursement basis.

- The ***Equipment Rental Fund*** accounts and assesses user charges for the cost of maintaining and replacing all City vehicles and heavy equipment.
- The ***Facilities Maintenance Fund*** accounts and assesses user charges for the operations and maintenance of the City's building facilities and public facilities ground maintenance and landscaping.
- The ***Health Benefits Fund*** accounts for programs established to provide employee medical health care coverage. Medical premiums received by the fund are used to pay claims for employees participating in the City's self-insured health care program, purchase "stop-loss" coverage for individual and aggregate claims in excess of self-insured limits, and maintain reserves for the payment to future claims based on actuarial estimates. Employee dental and vision coverage is purchased from an outside carrier.
- The ***Information Technology Fund*** accounts and assesses user charges for the cost of supporting the City's information processing and telecommunications functions and replacing all City computers.

City of Kirkland, Washington
Combining Statement of Net Position
Internal Service Funds
December 31, 2012

	Equipment Rental	Facilities Maintenance	Health Benefits	Information Technology	Total
Assets					
Current Assets					
Cash and Cash Equivalents	4,803,976	3,021,825	1,453,557	1,235,899	10,515,257
Investments	5,305,973	3,340,680	1,605,429	1,366,308	11,618,390
Accounts Receivable	26,731	156	96,531	0	123,418
Due from Other Governments	933	0	0	19,514	20,447
Inventories	61,636	0	0	0	61,636
Total Current Assets	10,199,249	6,362,661	3,155,517	2,621,721	22,339,148
Noncurrent Assets					
Capital Assets					
Improvements	128,605	0	0	0	128,605
Equipment	15,876,488	0	0	37,545	15,914,033
Accumulated Depreciation	(8,135,851)	0	0	(34,356)	(8,170,207)
Total Capital Assets Net	7,869,242	0	0	3,189	7,872,431
Total Noncurrent Assets	7,869,242	0	0	3,189	7,872,431
Total Assets	18,068,491	6,362,661	3,155,517	2,624,910	30,211,579
Liabilities					
Current Liabilities					
Accounts Payable	37,119	81,255	3,193	16,171	137,738
Claims Payable	0	0	611,030	0	611,030
Due to Other Funds	0	8,952	0	0	8,952
Due to Other Governments	9,250	5,821	0	11,274	26,345
Wages Payable	28,878	27,728	0	125,189	181,795
Compensated Absences Payable	27,624	14,363	0	77,589	119,576
Total Current Liabilities	102,870	138,119	614,223	230,223	1,085,435
Noncurrent Liabilities					
Compensated Absences Payable	6,906	3,591	0	19,397	29,894
Total Noncurrent Liabilities	6,906	3,591	0	19,397	29,894
Total Liabilities	109,776	141,710	614,223	249,620	1,115,329
Net Position					
Investment in Capital Assets	7,869,242	0	0	3,189	7,872,431
Unrestricted	10,089,472	6,220,951	2,541,295	2,372,101	21,223,819
Total Net Position	17,958,714	6,220,951	2,541,295	2,375,290	29,096,250

City of Kirkland, Washington
**Combining Statement of Revenues, Expenses
and Changes in Net Position**
Internal Service Funds
For the Fiscal Year Ended December 31, 2012

	Equipment Rental	Facilities Maintenance	Health Benefits	Information Technology	Total
Operating Revenues					
Intergovernmental	0	0	0	78,854	78,854
Charges for Services	3,475,250	3,062,800	8,542,667	4,285,710	19,366,427
Miscellaneous Revenues	16,938	197,298	280,940	30,146	525,322
Total Operating Revenues	3,492,188	3,260,098	8,823,607	4,394,710	19,970,603
Operating Expenses					
Administrative & General	475,473	263,031	8,320,570	1,871,867	10,930,941
Supplies	24,826	64,616	0	14,337	103,779
Maintenance & Operations	1,612,073	1,549,054	0	2,562,098	5,723,225
Depreciation	1,349,589	0	0	6,879	1,356,468
Total Operating Expenses	3,461,961	1,876,701	8,320,570	4,455,181	18,114,413
Operating Income (Loss)	30,227	1,383,397	503,037	(60,471)	1,856,190
Nonoperating Revenues (Expenses)					
Interest Revenue/(Investment Loss)	46,066	0	15,306	0	61,372
Gain (loss) on Disposal of Capital Assets	7,700	0	0	(4,691)	3,009
Other Nonoperating Revenues/(Expenses)	27,030	555	500,000	0	527,585
Total Nonoperating Revenues (Expenses)	80,796	555	515,306	(4,691)	591,966
Income (Loss) before Contributions and Transfers	111,023	1,383,952	1,018,343	(65,162)	2,448,156
Transfers In	1,214,165	79,190	0	476,149	1,769,504
Transfers Out	0	(428,509)	0	(729,500)	(1,158,009)
Change in Net Position	1,325,188	1,034,633	1,018,343	(318,513)	3,059,651
Total Net Position - Beginning	16,633,526	5,186,318	1,522,952	2,693,803	26,036,599
Total Net Position - Ending	17,958,714	6,220,951	2,541,295	2,375,290	29,096,250

City of Kirkland, Washington
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended December 31, 2012

	Equipment Rental	Facilities Maintenance	Health Benefits	Information Technology	Total
Cash Flows From Operating Activities					
Cash Received From Interfund Charges	3,475,250	3,060,800	107,594	4,285,710	10,929,354
Contributions Received from Employees and Employer	0	0	8,142,290	0	8,142,290
Cash From Other Sources	11,889	201,067	386,497	90,549	690,002
Cash Paid to Suppliers for Goods and Services	(929,745)	(1,145,267)	(6,804,665)	(1,417,150)	(10,296,827)
Cash Paid to Employees for Services	(634,569)	(623,759)	(107,472)	(2,884,367)	(4,250,167)
Cash Paid for Central Business Functions	(559,698)	(104,813)	(1,390,893)	(135,592)	(2,190,996)
Net Cash Provided by Operating Activities	1,363,127	1,388,028	333,351	(60,850)	3,023,656
Cash Flows From Noncapital Financing Activities					
Proceeds from Federal, State, Local Grants	5,081	555	0	0	5,636
Transfers In	1,228,252	79,189	0	476,149	1,783,590
Transfers Out	0	(442,596)	0	(729,500)	(1,172,096)
Net Cash Provided by (Used for) Noncapital Financing Activities	1,233,333	(362,852)	0	(253,351)	617,130
Cash Flows From Capital and Related Financing Activities					
Contributions From (To) Other Funds and Governments	0	0	500,000	0	500,000
Proceeds From Sale of Assets and Insurance Recoveries	105,158	0	0	0	105,158
Acquisition and Construction of Capital Assets	(2,226,418)	0	0	0	(2,226,418)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(2,121,261)	0	500,000	0	(1,621,261)
Cash Flows From Investing Activities					
Net (Increase) Decrease in Investments	(2,416,169)	(1,727,994)	(939,492)	(485,109)	(5,568,764)
Interest Revenue	59,350	0	18,185	0	77,535
Net Cash Provided by Investing Activities	(2,356,819)	(1,727,994)	(921,308)	(485,109)	(5,491,230)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,881,620)	(702,818)	(87,957)	(799,310)	(3,471,705)
Cash and Cash Equivalents, January 1	6,685,595	3,724,643	1,541,514	2,035,209	13,986,961
Cash and Cash Equivalents, December 31	4,803,976	3,021,825	1,453,557	1,235,899	10,515,257
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	30,227	1,383,397	503,037	(60,471)	1,856,190
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities					
Depreciation	1,349,589	0	0	6,879	1,356,468
Changes in Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	(24,541)	2,647	131,976	0	110,082
(Increase) Decrease in Capital Related Accounts Receivable	26,216	0	0	0	26,216
(Increase) Decrease of Insurance Recovery Accounts Receivable	8,227	0	0	0	8,227
(Increase) Decrease in Inventories	7,148	0	0	0	7,148
(Increase) Decrease in Due From Other Governments	(933)	0	0	(18,451)	(19,384)
(Increase) Decrease in Prepayments	2,939	4,475	0	11,956	19,370
(Increase) Decrease in Reclassification of Nonoperating Revenue	(14,087)	14,087	0	0	0
Increase (Decrease) in Accounts Payable	(28,537)	2,939	2,246	(5,471)	(28,823)
Increase (Decrease) in Capital Accounts Payable	172	0	0	0	172
Increase (Decrease) in Claims Payable	0	0	2,182	0	2,182
Increase (Decrease) in Due to Other Governments	308	(7,031)	0	(4,979)	(11,702)
Increase (Decrease) in Due to Other Funds	0	(13,908)	0	0	(13,908)
Increase (Decrease) in Wages Payable	3,977	1,214	0	11,340	16,531
Increase (Decrease) in Compensated Absences Payable	2,422	207	0	(1,654)	975
Increase (Decrease) in Revenue Collected in Advance	0	0	(306,090)	0	(306,090)
Net Cash Provided by Operating Activities	1,363,127	1,388,028	333,351	(60,850)	3,023,656
Noncash Investing, Capital and Finance Activities:					
Change in Fair Value of Investments	(4,908)	0	(1,504)	0	(6,412)

AGENCY FUNDS

Agency Funds account for resources held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

- The ***Intergovernmental Clearing Fund*** consists of funds paid to the City as an agent. These funds are generally disbursed to other governmental agencies such as King County and the State of Washington.
- The ***Customer Deposits Fund*** accounts for cash bonds and guaranties from contractors or private parties.

City of Kirkland
Statement of Agency Fund Net Assets
 December 31, 2012

	Intergovernmental Clearing	Customer Deposits	2012
Assets			
Cash and Cash Equivalents	115,516	0	115,516
Deposits	0	1,324,903	1,324,903
Total Assets	115,516	1,324,903	1,440,419
Liabilities			
Current Liabilities			
Due to Other Governments	100,242	0	100,242
Deposits	15,274	1,324,903	1,340,177
Total Liabilities	115,516	1,324,903	1,440,419

City of Kirkland
Statement of Changes in Assets and Liabilities
All Agency Funds
For the fiscal year ended December 31, 2012

	01/01/12 Balance	Additions	Deletions	12/31/12 Balance
Intergovernmental Custodial				
Assets				
Cash and Cash Equivalents	35,764	14,627,111	14,547,359	115,516
Total Assets	35,764	14,627,111	14,547,359	115,516
Liabilities				
Due to Other Governments	23,507	604,645	527,911	100,242
Deposits	12,257	300,983	297,966	15,274
Total Liabilities	35,764	905,628	825,876	115,516
Customer Deposits				
Assets				
Deposits	1,318,514	965,436	959,048	1,324,903
Total Assets	1,318,514	965,436	959,048	1,324,903
Liabilities				
Deposits	1,318,514	973,433	967,044	1,324,903
Total Liabilities	1,318,514	973,433	967,044	1,324,903
Totals - All Agency Funds				
Assets				
Cash and Cash Equivalents	35,764	14,627,111	14,547,359	115,516
Deposits	1,318,514	965,436	959,048	1,324,903
Total Assets	1,354,278	15,592,548	15,506,407	1,440,419
Liabilities				
Due to Other Governments	23,507	604,645	527,911	100,242
Deposits	1,330,771	1,274,416	1,265,010	1,340,177
Total Liabilities	1,354,278	1,879,061	1,792,920	1,440,419

Capital Assets

City of Kirkland
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedule by Source
December 31, 2012
Unaudited

	<u>2012</u>
Governmental Funds Capital Assets:	
Land	\$ 588,616,556
Buildings	39,393,256
Improvements other than Buildings	26,647,749
Machinery and Equipment	1,807,774
Artwork	1,629,966
Infrastructure	230,630,454
Construction in Progress	28,079,677
Total Governmental Funds Capital Assets	<u><u>\$ 916,805,432</u></u>
Investments in Governmental Funds Capital Assets by Source:	
General Fund	\$ 252,834,000
Special Revenue Funds	1,994,430
Impact Fees	7,370,506
Federal Grants	3,327,461
General Obligation Bonds	53,803,306
Private Gifts	9,371,551
Annexation	588,104,178
Total Governmental Funds Capital Assets	<u><u>\$ 916,805,432</u></u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in Internal Service Funds are excluded from the above amounts. Generally, the capital assets of Internal Service Funds are included as governmental activities in the Statement of Net Assets.



City of Kirkland
Capital Assets used in the Operation of Governmental Funds
Schedule by Function and Activity
December 31, 2012
Unaudited

FUNCTION AND ACTIVITY	Land	Buildings	Improvements	Machinery and Equip	Artwork	Infrastructure	CIP	TOTAL
General Govt	\$ 5,300,415	\$ 15,272,032	\$ 5,661,242	\$ 421,759	\$ -	\$ -	\$ 15,628,017	\$ 42,283,465
Judicial	1,298,000	1,399,615	1,274,148	-	-	-	-	\$ 3,971,763
Security								
Police	5,367,905	5,157,399	1,873,371	334,897	-	-	2,208,642	\$ 14,942,214
Fire	1,306,200	5,361,314	466,054	651,399	-	-	413,667	\$ 8,198,634
Total Security	6,674,105	10,518,713	2,339,425	986,296	-	-	2,622,309	23,140,848
Transportation	521,398,023	5,845,821	-	28,927	-	230,630,454	9,230,712	\$ 767,133,937
Physical Environment	65,338	-	1,053,377	134,068	-	-	504	\$ 1,253,287
Economic Environment	-	-	-	-	-	-	459,720	\$ 459,720
Human Services	-	-	-	-	-	-	-	\$ -
Culture and Recreation	53,880,675	6,357,075	16,319,557	236,724	1,629,966	-	138,415	\$ 78,562,412
Total Governmental Funds Capital Assets	\$ 588,616,556	\$ 39,393,256	\$ 26,647,749	\$ 1,807,774	\$ 1,629,966	\$ 230,630,454	\$ 28,079,677	\$ 916,805,432

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in Internal Service Funds are excluded from the above amounts. Generally, the capital assets of Internal Service Funds are included as governmental activities in the Statement of Net Assets.

City of Kirkland
Capital Assets used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
For the Year Ended December 31, 2012
Unaudited

FUNCTION AND ACTIVITY	Governmental Funds Capital Assets			Governmental Funds Capital Assets
	Jan 1, 2012	Additions	Deductions	Dec 31, 2012
General Govt	\$ 40,949,013	\$ 1,378,319	\$ 43,867	\$ 42,283,465
Judicial	3,971,763	-	-	3,971,763
Security				
Police	13,637,472	1,315,929	11,187	14,942,214
Fire	8,103,799	495,077	400,242	8,198,634
Total Security	<u>21,741,271</u>	<u>1,811,006</u>	<u>411,429</u>	<u>23,140,848</u>
Transportation	761,052,606	19,491,226	13,409,895	767,133,937
Physical Environment	1,252,499	1,200	412	1,253,287
Economic Environment	459,720	-	-	459,720
Human Services	-	-	-	-
Culture and Recreation	74,137,156	4,460,720	35,464	78,562,412
Total Governmental Funds Capital Assets	<u>\$903,564,028</u>	<u>\$ 27,142,471</u>	<u>\$ 13,901,067</u>	<u>\$916,805,432</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in Internal Service Funds are excluded from the above amounts. Generally, the capital assets of Internal Service Funds are included as governmental activities in the Statement of Net Assets.

Statistical Section

City of Kirkland STATISTICAL SECTION

The following section of the City of Kirkland's Comprehensive Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

<i>Statistical Section</i>	<i>Page</i>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	133
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, sales and property tax.	138
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	144
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	149
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	152

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.



Schedule 1
City of Kirkland
 Net Position by Component
 Last Ten Fiscal Years - Unaudited
 (accrual basis of accounting)

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006¹</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental Activities										
Invested in Capital Assets, Net of Related Debt	\$ 141,921,038	\$ 144,192,014	\$ 144,889,758	\$ 149,842,998	\$ 159,271,557	\$ 161,182,917	\$ 169,257,160	\$ 171,816,615	\$ 765,633,941	\$ 776,309,902
Restricted	39,956,320	32,708,901	31,529,052	37,582,793	2,609,847	2,414,668	1,537,901	25,655,616	56,174,364	51,718,526
Unrestricted	11,725,447	25,921,417	35,872,865	37,799,676	77,110,238	76,753,537	68,705,257	41,958,087	20,984,369	31,820,341
Total Governmental Activities Net Position	\$ 193,602,805	\$ 202,822,332	\$ 212,291,675	\$ 225,225,467	\$ 238,991,642	\$ 240,351,122	\$ 239,500,318	\$ 239,430,318	\$ 842,792,674	\$ 859,848,769
Business-type Activities										
Invested In Capital Assets, Net of Related Debt	\$ 72,934,376	\$ 83,386,001	\$ 92,417,203	\$ 96,222,908	\$ 101,047,975	\$ 108,618,685	\$ 114,800,561	\$ 116,940,418	\$ 135,167,834	\$ 138,359,034
Restricted	297,987	211,353	203,786	181,440	165,616	151,659	118,288	822,275	821,130	488,200
Unrestricted	17,041,390	18,749,964	18,643,884	26,124,764	29,956,731	32,346,829	33,275,413	35,285,938	39,518,104	42,401,172
Total Business-type Net Position	\$ 90,273,753	\$ 102,347,318	\$ 111,264,873	\$ 122,529,112	\$ 131,170,322	\$ 141,117,173	\$ 148,194,262	\$ 153,048,631	\$ 175,507,068	\$ 181,248,406
Primary Government										
Invested in Capital Assets, Net of Related Debt	\$ 214,855,414	\$ 227,578,015	\$ 237,306,961	\$ 246,065,906	\$ 260,319,532	\$ 269,801,602	\$ 284,057,721	\$ 288,757,033	\$ 900,801,775	\$ 914,668,936
Restricted	40,254,307	32,920,254	31,732,838	37,764,233	2,775,463	2,566,327	1,656,189	26,477,891	56,995,494	52,206,726
Unrestricted	28,766,837	44,671,381	54,516,749	63,924,440	107,066,969	109,100,366	101,980,670	77,244,025	60,502,473	74,221,513
Total Primary Government Net Position	\$ 283,876,558	\$ 305,169,650	\$ 323,556,548	\$ 347,754,579	\$ 370,161,964	\$ 381,468,295	\$ 387,694,580	\$ 392,478,949	\$ 1,018,299,742	\$ 1,041,097,175

¹ 2006 presentation was modified in 2007 to reflect a prior period adjustment.

Schedule 2
City of Kirkland
 Changes in Net Position
 Last Ten Fiscal Years - Unaudited
 (accrual basis of accounting)

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006²</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Expenses										
Governmental Activities										
General Government	\$ 2,856,768	\$ 3,072,412	\$ 4,029,646	\$ 4,399,307	\$ 5,489,712	\$ 6,820,650	\$ 4,568,923	\$ 4,573,285	\$ 4,985,746	\$ 4,996,539
Judicial	1,132,956	1,237,842	1,232,126	1,346,720	1,543,351	1,642,299	1,650,882	1,655,987	1,961,880	2,152,625
Security of Persons and Property	21,283,552	21,663,542	24,501,016	25,210,510	28,231,977	30,785,015	33,747,603	34,218,384	38,342,580	41,376,492
Physical Environment	2,051,401	2,335,038	2,160,540	2,345,553	2,886,473	2,797,484	1,705,151	1,266,318	1,983,567	2,088,842
Transportation	8,376,404	6,718,867	9,859,368	11,225,929	6,822,829	11,884,663	9,636,435	9,547,626	8,874,943	10,621,802
Human Services	1,138,226	1,115,196	1,013,306	1,049,579	1,122,182	1,050,624	1,262,160	1,254,029	1,168,688	1,247,531
Economic Environment	4,655,743	4,383,632	5,063,940	4,956,792	5,535,097	5,713,660	5,032,794	5,208,705	4,581,729	5,477,609
Culture and Recreation	5,647,716	5,617,903	5,878,788	6,244,431	7,050,990	7,223,809	7,547,669	7,162,320	7,360,003	7,842,007
Interest on Long Term Debt	1,467,601	1,335,805	1,248,028	1,157,676	952,919	801,792	706,000	776,642	2,110,842	2,238,879
Total Governmental Activities	\$ 48,610,367	\$ 47,480,237	\$ 54,986,758	\$ 57,936,497	\$ 59,635,530	\$ 68,719,996	\$ 65,857,617	\$ 65,663,296	\$ 71,369,978	\$ 78,042,326
Business Type Activities										
Water/Sewer	\$ 13,783,135	\$ 12,444,661	\$ 13,415,317	\$ 14,293,499	\$ 15,038,083	\$ 15,644,082	\$ 16,808,870	\$ 17,102,179	\$ 18,820,946	\$ 19,448,287
Surface Water	2,270,481	2,468,998	2,694,872	2,698,022	3,258,849	3,356,904	4,117,152	3,987,932	4,695,287	5,798,425
Solid Waste	7,542,788	7,006,972	7,055,826	7,313,435	7,556,493	8,168,316	8,112,106	8,057,897	10,655,055	13,191,812
Total Business Type Activities	\$ 23,596,404	\$ 21,920,631	\$ 23,166,015	\$ 24,304,956	\$ 25,853,425	\$ 27,169,302	\$ 29,038,128	\$ 29,148,008	\$ 34,171,288	\$ 38,438,524
Total Primary Government Expenses	\$ 72,206,771	\$ 69,400,868	\$ 78,152,773	\$ 82,241,453	\$ 85,488,955	\$ 95,889,298	\$ 94,895,745	\$ 94,811,304	\$ 105,541,266	\$ 116,480,850
Program Revenues										
Governmental Activities										
Charges for Services										
General Government	\$ 1,892,009	\$ 1,871,874	\$ 2,176,589	\$ 2,583,828	\$ 2,867,603	\$ 3,096,779	\$ 2,960,276	\$ 3,226,434	\$ 5,329,054	\$ 6,193,191
Judicial	2,491,794	1,489,330	1,198,671	1,365,820	1,546,200	1,534,567	1,776,732	1,813,501	2,011,693	1,884,924
Security of Persons and Property	3,372,591	3,758,854	4,700,508	4,601,906	4,820,358	5,306,512	6,487,767	5,404,357	3,899,269	2,517,728
Physical Environment	334,062	489,291	614,942	697,593	704,730	573,298	443,828	332,774	841,679	1,245,290
Transportation	70,526	207,436	1,096,127	580,475	178,226	782,638	526,401	335,034	778,133	1,287,801
Economic Environment	3,542,188	4,538,432	4,648,507	4,047,288	3,784,004	2,884,005	2,152,903	2,181,134	2,793,946	4,579,991
Culture and Recreation	843,363	861,459	1,095,629	1,053,975	944,457	1,191,477	1,334,207	1,245,180	1,338,704	1,834,283
Operating Grants and Contributions	1,962,167	1,579,462	2,081,827	1,688,627	1,835,419	1,478,355	2,133,689	1,730,706	2,014,483	5,027,871
Capital Grants and Contributions	901,588	892,384	1,233,637	1,031,834	1,067,085	1,702,710	1,076,498	2,804,824	591,553,694	1,958,280
Total Governmental Activities	\$ 15,410,288	\$ 15,688,522	\$ 18,846,437	\$ 17,651,346	\$ 17,748,082	\$ 18,550,341	\$ 18,892,301	\$ 19,073,944	\$ 610,560,655	\$ 26,529,359

	Fiscal Year									
	2003	2004	2005	2006 ²	2007	2008	2009	2010	2011	2012
Business Type Activities										
Charges for Service										
Water/Sewer	\$ 15,147,095	\$ 13,564,146	\$ 13,628,018	\$ 17,604,778	\$ 16,739,996	\$ 18,169,666	\$ 18,491,063	\$ 18,387,062	\$ 19,736,206	\$ 21,066,391
Surface Water	2,563,696	2,806,057	4,065,829	5,049,525	5,067,890	5,220,765	5,279,088	5,122,063	6,777,735	8,502,468
Solid Waste	7,622,436	7,118,725	7,199,748	8,300,583	7,518,635	8,291,955	8,336,846	8,007,631	10,063,072	12,746,781
Operating Grants and Contributions	406,482	64,698	-	105,073	600,683	388,360	364,251	313,490	529,923	284,721
Capital Grants and Contributions	7,052,440	10,251,810	7,139,864	3,692,047	3,336,990	4,281,929	3,071,321	1,950,653	20,029,622	2,194,949
Total Business Type Activities	\$ 32,792,149	\$ 33,805,436	\$ 32,033,459	\$ 34,752,006	\$ 33,264,194	\$ 36,352,675	\$ 35,542,569	\$ 33,780,899	\$ 57,136,558	\$ 44,795,310
Total Program Revenues	\$ 48,202,437	\$ 49,493,958	\$ 50,879,896	\$ 52,403,352	\$ 51,012,276	\$ 54,903,016	\$ 54,434,870	\$ 52,854,843	\$ 667,697,213	\$ 71,324,669
Net (Expense)/Revenue										
Governmental Activities	\$ (33,200,079)	\$ (31,791,715)	\$ (36,140,321)	\$ (40,285,151)	\$ (41,887,448)	\$ (50,169,655)	\$ (46,965,316)	\$ (46,589,352)	\$ 539,190,677	\$ (51,512,967)
Business Type Activities	9,195,745	11,884,805	8,867,444	10,447,050	7,410,769	9,183,373	6,504,441	4,632,891	22,965,270	6,356,786
Total Net Expense	\$ (24,004,334)	\$ (19,906,910)	\$ (27,272,877)	\$ (29,838,101)	\$ (34,476,679)	\$ (40,986,282)	\$ (40,460,875)	\$ (41,956,461)	\$ 562,155,947	\$ (45,156,181)
General Revenues										
Governmental Activities										
Taxes										
Property Taxes	\$ 11,379,010	\$ 11,772,666	\$ 11,593,056	\$ 13,023,578	\$ 13,729,508	\$ 14,436,254	\$ 14,804,560	\$ 14,699,191	\$ 21,815,979	\$ 21,435,319
Sales Taxes	13,614,210	14,245,140	16,008,359	17,473,327	18,167,448	15,777,179	13,473,254	14,083,506	16,600,753	20,813,009
Excise Taxes ¹	-	-	6,261,813	7,044,850	6,832,730	3,158,532	1,999,843	2,974,586	3,544,099	5,434,137
Business/Occupational Taxes	500,194	899,709	929,499	978,746	981,243	1,007,998	1,936,971	2,023,534	2,346,885	2,371,259
Utility Taxes	7,200,791	7,390,288	6,978,378	8,966,649	9,824,961	10,225,600	10,825,038	10,339,384	12,302,205	14,141,722
Other Taxes	3,618,383	5,262,954	1,429,341	1,879,171	1,221,453	1,062,001	1,159,940	968,004	2,151,532	2,773,320
Unrestricted Grants/Contributions	46,856	520,573	324,842	-	501	74,548	215,697	115,815	105,458	99,929
Investment Earnings	1,083,545	954,779	1,417,570	3,391,684	4,607,033	4,218,724	1,442,357	744,667	893,905	588,839
Gain (Loss) Sale of Capital Assets	36,611	(172,867)	272,899	318,182	108,031	87,053	106,852	397,866	38,694	46,215
Transfers, Internal Activities	40,598	138,000	393,907	142,755	180,715	659,801	150,000	172,799	840,362	865,313
Total Governmental Activities	\$ 37,520,198	\$ 41,011,242	\$ 45,609,664	\$ 53,218,942	\$ 55,653,623	\$ 50,707,690	\$ 46,114,512	\$ 46,519,352	\$ 60,639,872	\$ 68,569,062
Business Type Activities										
Investment Earnings	\$ 316,405	\$ 326,761	\$ 444,017	\$ 959,944	\$ 1,411,155	\$ 1,423,279	\$ 722,648	\$ 394,277	\$ 333,529	\$ 249,865
Transfers, Internal Activities	(40,598)	(138,000)	(393,907)	(142,755)	(180,715)	(659,801)	(150,000)	(172,799)	(840,362)	(865,313)
Total Business Type Activities	\$ 275,807	\$ 188,761	\$ 50,110	\$ 817,189	\$ 1,230,440	\$ 763,478	\$ 572,648	\$ 221,478	\$ (506,834)	\$ (615,448)
Total Primary Government	\$ 37,796,005	\$ 41,200,003	\$ 45,659,774	\$ 54,036,131	\$ 56,884,063	\$ 51,471,168	\$ 46,687,160	\$ 46,740,830	\$ 60,133,038	\$ 67,953,614
Change in Net Assets										
Governmental Activities	\$ 4,320,117	\$ 9,219,527	\$ 9,469,343	\$ 12,933,791	\$ 13,766,175	\$ 538,035	\$ (850,804)	\$ (70,000)	\$ 599,830,549	\$ 17,056,095
Business Type Activities	9,471,554	12,073,566	8,917,554	11,264,239	8,641,209	9,946,851	7,077,089	4,854,369	22,458,437	5,741,338
Total Change in Net Assets	\$ 13,791,671	\$ 21,293,093	\$ 18,386,897	\$ 24,198,030	\$ 22,407,384	\$ 10,484,886	\$ 6,226,285	\$ 4,784,369	\$ 622,288,986	\$ 22,797,433

¹ Excise Taxes were reported as a portion of "Other Taxes" in 2003 and 2004.

² 2006 presentation was modified in 2007 to reflect a prior period adjustment.

Schedule 3

City of Kirkland

Fund Balances of Governmental Funds

Last Ten Fiscal Years - Unaudited

(modified accrual basis of accounting)

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u> ¹	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund (Per GASB 54)²										
Nonspendable									\$ 260,094	\$ -
Restricted									462,762	587,434
Committed									6,187,802	2,569,900
Assigned									13,869,876	12,467,508
Unassigned									7,844,233	16,971,158
General Fund (Prior GASB 54)²										
Reserved	\$ 23,175	\$ 23,175	\$ 23,175	\$ -	\$ -	\$ -	\$ -	\$ -		
Unreserved	4,132,740	5,603,516	5,505,380	8,394,364	10,926,697	7,585,824	7,664,519	6,429,953		
Total General Fund	\$ 4,155,915	\$ 5,626,691	\$ 5,528,555	\$ 8,394,364	\$10,926,697	\$ 7,585,824	\$ 7,664,519	\$ 6,429,953	\$28,624,767	\$32,596,000
All Other Governmental Funds (Per GASB 54)²										
Nonspendable									2,746	-
Restricted									48,877,848	47,009,318
Committed									383,112	1,522,838
Assigned									10,332,233	10,432,282
Unassigned									-	-
All Other Governmental Funds (Prior GASB 54)²										
Reserved	\$ 595,670	\$ 568,667	\$15,850,351	\$19,098,553	\$ 2,693,084	\$ 2,482,649	\$ 1,589,550	\$26,308,722		
Unreserved, reported in:										
Special Revenue Funds	28,828,816	29,056,531	18,198,126	21,110,714	36,824,565	35,827,505	24,498,161	23,783,597		
Capital Projects Funds	24,010,369	18,743,786	15,771,542	18,484,240	20,787,912	24,403,049	23,439,218	21,641,181		
Total all Other Governmental Funds	\$53,434,855	\$48,368,984	\$49,820,019	\$58,693,507	\$60,305,561	\$62,713,203	\$49,526,929	\$71,733,500	\$59,595,938	\$58,964,437

¹ 2006 presentation was modified in 2007 to reflect a prior period adjustment.

² Prior to 2011 and the implementation of GASB statement 54, fund balances were classified as Reserved or Unreserved.

Under GASB statement 54, fund balances are classified as Nonspendable, Reserved, Committed, Assigned, or Unassigned.

Schedule 4

City of Kirkland

Changes in Fund Balance of Governmental Funds

Last Ten Fiscal Years - Unaudited

(modified accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006 ¹	2007	2008	2009	2010	2011	2012
Revenues										
Taxes and Assessments	\$ 36,148,462	\$ 39,285,690	\$ 43,013,052	\$ 48,869,999	\$ 49,958,737	\$ 45,110,987	\$ 43,627,322	\$ 44,451,281	\$ 57,482,839	\$ 65,360,731
Licenses and Permits	2,622,783	3,076,018	3,979,870	3,708,339	3,829,844	3,246,893	3,277,794	3,262,940	5,279,547	7,068,382
Intergovernmental	5,894,441	5,730,204	6,871,563	6,240,952	6,760,999	7,664,200	8,965,670	9,608,276	9,123,231	8,243,496
Charges for Services	8,386,242	9,450,454	10,094,396	10,048,417	9,845,034	10,041,051	8,753,980	8,832,375	9,848,611	13,501,666
Fines and Forfeitures	1,173,958	1,233,761	1,117,030	1,165,921	1,363,234	1,422,321	1,506,082	1,652,358	1,943,538	1,889,569
Investment Interest	1,387,251	1,258,689	1,829,674	2,778,651	3,679,548	3,048,864	1,654,092	676,043	803,086	527,466
Miscellaneous Revenues	640,413	447,210	797,317	1,531,327	1,080,766	1,594,979	816,419	699,030	1,019,273	1,088,652
Total Revenues	\$ 56,253,550	\$ 60,482,026	\$ 67,702,902	\$ 74,343,606	\$ 76,518,162	\$ 72,129,295	\$ 68,601,359	\$ 69,182,303	\$ 85,500,125	\$ 97,679,962
Expenditures										
Current										
General Government	\$ 7,972,444	\$ 7,909,306	\$ 8,758,846	\$ 8,744,986	\$ 10,022,436	\$ 11,013,790	\$ 9,550,636	\$ 9,164,515	\$ 10,067,748	\$ 11,089,878
Security of Persons and Property	20,511,004	23,445,532	26,257,339	27,543,202	27,919,796	30,444,289	32,479,111	33,155,872	37,665,018	40,515,907
Physical Environment	3,132,268	3,182,524	3,409,688	3,547,034	3,698,987	3,689,425	3,488,651	3,211,041	3,635,642	3,981,111
Transportation	4,056,329	3,298,181	4,628,907	4,999,973	4,687,211	6,774,661	6,957,494	6,554,789	6,087,389	8,384,173
Economic Environment	5,231,261	3,991,399	4,360,324	4,115,011	6,757,692	6,898,759	6,309,295	6,532,329	6,121,483	6,799,931
Culture and Recreation	5,020,420	5,053,334	5,479,543	5,919,511	6,454,935	6,769,274	6,764,722	6,330,916	6,517,613	6,869,066
Debt Service										
Principal	1,970,000	1,835,000	2,012,000	1,920,000	3,805,000	2,090,000	2,190,000	1,410,000	1,705,000	2,545,313
Interest	1,374,996	1,207,062	1,132,012	1,054,664	972,694	817,048	722,333	646,041	2,247,480	2,238,879
Bond Issuance Costs	-	-	-	-	-	-	-	98,507	48,679	-
Capital Outlay	4,836,500	13,256,914	10,239,560	4,448,792	8,680,093	6,352,081	10,882,097	17,357,329	9,008,550	12,212,995
Total Expenditures	\$ 54,105,222	\$ 63,179,252	\$ 66,278,219	\$ 62,293,173	\$ 72,998,844	\$ 74,849,327	\$ 79,344,339	\$ 84,461,339	\$ 83,104,602	\$ 94,637,253
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	\$ 2,148,328	\$ (2,697,226)	\$ 1,424,683	\$ 12,050,433	\$ 3,519,318	\$ (2,720,032)	\$ (10,742,980)	\$ (15,279,036)	\$ 2,395,523	\$ 3,042,709
Other Financing Sources (Uses)										
Issuance of Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,345,000	\$ 4,255,000	\$ -
Refunded Amount to Escrow	-	-	-	-	-	-	-	-	(4,385,000)	-
Bond Discount	-	-	-	-	-	-	-	(373,661)	185,317	-
Sale of Capital Assets	90,670	87,600	234,560	564,788	403,402	97,798	33,036	366,825	38,694	43,206
Insurance Recovery	-	-	-	-	-	390,669	5,520	5,540	818	-
Proceeds from Long Term Debt	8,560,351	-	-	-	-	-	-	-	-	-
Transfers In	9,963,670	9,494,297	9,347,701	11,518,923	13,978,513	12,796,892	19,453,883	9,489,033	9,032,665	16,243,715
Transfers Out	(9,923,072)	(10,479,766)	(9,654,045)	(12,394,848)	(13,756,846)	(12,320,003)	(18,297,093)	(8,581,696)	(8,997,572)	(15,989,897)
Total Other Financing Sources (Uses)	8,691,619	(897,869)	(71,784)	(311,137)	625,069	965,356	1,195,346	36,251,041	129,922	297,024
Net Change in Fund Balance	\$ 10,839,947	\$ (3,595,095)	\$ 1,352,899	\$ 11,739,296	\$ 4,144,387	\$ (1,754,676)	\$ (9,547,634)	\$ 20,972,005	\$ 2,525,445	\$ 3,339,733
Debt Service as a percentage of noncapital expenditures	6.79%	6.09%	5.61%	5.14%	7.43%	4.24%	4.25%	3.06%	5.33%	5.80%

¹ 2006 presentation was modified in 2007 to reflect a prior period adjustment.

Schedule 5

City of Kirkland

Assessed Value and Actual Value of Taxable Property

Last Ten Fiscal Years - Unaudited

(in thousands)

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Taxable Assessed Valuation</u>	<u>Total Direct Tax Rate</u>
2003	\$ 6,788,777,356	\$344,404,165	\$ 7,133,181,521	1.59
2004	\$ 7,151,120,913	\$295,356,068	\$ 7,446,476,981	1.55
2005	\$ 7,605,630,655	\$290,763,254	\$ 7,896,393,909	1.49
2006	\$ 8,489,201,834	\$313,726,919	\$ 8,802,928,753	1.49
2007	\$ 9,536,541,460	\$328,698,684	\$ 9,865,240,144	1.40
2008	\$ 12,770,499,212	\$386,893,391	\$ 13,157,392,603	1.27
2009	\$ 10,948,249,594	\$363,953,154	\$ 11,312,202,748	1.13
2010	\$ 10,339,449,107	\$371,383,209	\$ 10,710,832,316	1.29
2011	\$ 9,875,673,406	\$422,921,112	\$ 10,298,594,518	1.39
2012	\$ 13,917,848,447	\$410,053,788	\$ 14,327,902,235	1.46

Schedule 6

City of Kirkland

Direct and Overlapping Governments

Last Ten Fiscal Years - Unaudited

Fiscal Year	City Direct Rates			Overlapping Rates							Total Direct and Overlapping Rate
	Regular Levy	General Obligation Debt Service	Total Direct Rate	School District	County	State	Emergency Medical Services	Hospital	King County Library	Port of Seattle	
2003	1.37	0.22	1.59	3.06	1.35	2.90	0.25	0.34	0.50	0.26	10.25
2004	1.35	0.20	1.55	2.96	1.43	2.76	0.25	0.34	0.49	0.25	10.03
2005	1.31	0.18	1.49	2.83	1.38	2.69	0.23	0.59	0.49	0.25	9.95
2006	1.32	0.17	1.49	2.64	1.33	2.49	0.22	0.54	0.49	0.24	9.44
2007	1.25	0.15	1.40	2.57	1.29	2.33	0.21	0.50	0.46	0.23	8.99
2008	1.14	0.13	1.27	2.34	1.21	2.28	0.30	0.45	0.42	0.22	8.49
2009	1.02	0.11	1.13	2.23	1.10	2.11	0.27	0.40	0.39	0.20	7.83
2010	1.21	0.08	1.29	2.80	1.28	2.33	0.30	0.46	0.46	0.22	9.14
2011	1.30	0.09	1.39	2.98	1.35	2.39	0.30	0.48	0.55	0.22	9.66
2012	1.37	0.09	1.46	3.53	1.42	2.54	0.30	0.49	0.57	0.23	10.54

Tax rates are for a representative tax code area (1700) within the City and are stated at \$1,000 of assessed value.
 Initiative 747 passed in November 2001 limiting the annual optional increase in property tax levies to the lesser of one percent or the implicit price deflator.

Schedule 7

City of Kirkland

Principal Property Tax Payers

Current Year and Nine Years Ago - Unaudited

<u>Taxpayer</u>	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Carillon Properties	\$ 133,730,763	1	0.93%	\$ 128,107,900	1	1.72%
Park at Forbes Creek LLC	75,000,000	2	0.52%	36,295,800	2	0.49%
Villaggio (Yarrow Bay Club Apartments)	70,437,000	3	0.49%	24,699,000	6	0.33%
Kilroy Realty (Plaza at Yarrow Bay, Inc.)	57,233,375	5	0.40%			
Puget Sound Energy Electricity/Gas	60,324,996	4	0.42%			
Frontier Communications NW, Inc. (Verizon NW)	42,441,550	6	0.30%			
Essex Property Trust	38,820,000	7	0.27%			
PPC Montebello LLC	35,619,000	8	0.25%	31,601,000	3	0.42%
EQR-Heronfield LLC	35,350,000	9	0.25%	19,978,500	8	0.27%
Touchstone KPP Development (Parkplace)	33,784,400	10	0.24%	30,555,600	5	0.41%
First Washington Realty (Totem Lake Mall)				31,076,200	4	0.42%
Aspen Creek US, Inc.				21,595,000	7	0.29%
Juanita Village (Chelsea)				19,064,300	9	0.26%
Central Building LLC (Tera)				18,925,000	10	0.25%
Totals	<u>\$ 582,741,084</u>		<u>4.07%</u>	<u>\$ 361,898,300</u>		<u>4.86%</u>

Schedule 8

City of Kirkland

Property Tax Levies and Collections

Last Ten Fiscal Years - Unaudited

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 11,289,849	\$ 10,955,151	97.04%	\$ 265,089	\$ 11,220,240	99.38%
2004	\$ 11,528,775	\$ 11,264,874	97.71%	\$ 224,251	\$ 11,489,125	99.66%
2005	\$ 11,724,737	\$ 11,393,400	97.17%	\$ 242,273	\$ 11,635,673	99.24%
2006	\$ 13,054,382	\$ 12,791,085	97.98%	\$ 224,019	\$ 13,015,104	99.70%
2007	\$ 13,833,686	\$ 13,539,420	97.87%	\$ 266,537	\$ 13,805,957	99.80%
2008	\$ 14,576,390	\$ 14,222,940	97.58%	\$ 332,535	\$ 14,555,475	99.86%
2009	\$ 14,958,836	\$ 14,520,416	97.07%	\$ 403,332	\$ 14,923,748	99.77%
2010	\$ 14,746,683	\$ 14,428,454	97.84%	\$ 269,859	\$ 14,698,313	99.67%
2011	\$ 21,792,076	\$ 21,498,711	98.65%	\$ 226,212	\$ 21,724,923	99.69%
2012	\$ 20,926,668	\$ 20,663,153	98.74%	\$ -	\$ 20,663,153	98.74%

Schedule 9
City of Kirkland
 Taxable Sales by Category
 Last Ten Calendar Years - Unaudited

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Services	\$ 1,277,213	\$ 1,347,480	\$ 1,516,943	\$ 1,722,501	\$ 1,779,742	\$ 1,696,462	\$ 1,450,142	\$ 1,609,846	\$ 1,692,708	\$ 1,668,617
Contracting	1,497,052	1,777,419	2,315,820	3,279,243	3,007,168	2,685,516	1,727,379	1,739,823	1,748,813	2,529,780
Communications	936,836	576,840	689,152	793,243	657,923	564,808	481,053	439,692	476,189	436,466
Automotive/Gas Retail	2,532,728	2,721,983	2,791,766	2,973,380	3,276,488	2,990,763	2,650,594	3,038,615	3,161,851	3,655,645
Gen Merch/ Misc Retail	2,377,572	2,220,194	2,384,674	2,524,268	2,562,537	2,230,501	1,929,745	1,745,038	1,802,876	1,876,571
Retail Eating/Drinking	1,031,527	1,109,576	1,183,017	1,228,127	1,294,444	1,295,765	1,126,930	1,063,913	1,145,123	1,270,831
Other Retail	1,259,370	1,577,589	1,774,957	1,800,744	1,738,458	1,761,238	1,546,911	1,614,016	1,694,262	1,987,976
Wholesale	1,112,417	652,515	984,807	1,320,124	1,111,079	881,824	546,513	725,093	709,686	560,974
Miscellaneous	647,736	720,378	668,662	786,514	1,098,629	924,213	785,660	830,820	956,682	823,404
Total	\$ 12,672,451	\$ 12,703,974	\$ 14,309,798	\$ 16,428,144	\$ 16,526,468	\$ 15,031,090	\$ 12,244,927	\$ 12,806,856	\$ 13,388,190	\$ 14,810,264
City direct sales tax rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Source: City of Kirkland Finance and Administration

Schedule 10

City of Kirkland

Direct and Overlapping Sales Tax Rates

Last Ten Fiscal Years - Unaudited

Fiscal Year	General Sales						Automobile Sales/Leases		Restaurant Food/Beverage		
	State of Washington	King County			Regional	City of Kirkland ¹	Total	State of Washington	Total	King County	Total
	General Sales	Metro	Criminal Justice	Mental Health	Transit Authority		General Sales Tax	Automobile Sales/Leases	Automobile Sales/Leases	Restaurant Food and Beverage	Restaurant Food and Beverage
2003	6.50%	0.80%	0.10%	0%	0.40%	1.00%	8.80%	0%	8.80%	0.50%	9.30%
2004	6.50%	0.80%	0.10%	0%	0.40%	1.00%	8.80%	0.30%	9.10%	0.50%	9.30%
2005	6.50%	0.80%	0.10%	0%	0.40%	1.00%	8.80%	0.30%	9.10%	0.50%	9.30%
2006	6.50%	0.80%	0.10%	0%	0.40%	1.00%	8.80%	0.30%	9.10%	0.50%	9.30%
2007	6.50%	0.90%	0.10%	0%	0.40%	1.00%	8.90%	0.30%	9.20%	0.50%	9.40%
2008	6.50%	0.90%	0.10%	0.10%	0.40%	1.00%	9.00%	0.30%	9.30%	0.50%	9.50%
2009	6.50%	0.90%	0.10%	0.10%	0.90%	1.00%	9.50%	0.30%	9.80%	0.50%	10.00%
2010	6.50%	0.90%	0.10%	0.10%	0.90%	1.00%	9.50%	0.30%	9.80%	0.50%	10.00%
2011	6.50%	0.90%	0.10%	0.10%	0.90%	1.00%	9.50%	0.30%	9.80%	0.00%	9.50%
2012	6.50%	0.90%	0.10%	0.10%	0.90%	1.00%	9.50%	0.30%	9.80%	0.00%	9.50%

¹ The City of Kirkland direct tax rate is 1.0% with .15% remitted to King County.

Schedule 11

City of Kirkland

Ratio of Outstanding Debt by Type

Last Ten Fiscal Years - Unaudited

<u>Fiscal Year</u>	<u>Governmental Activities</u>				<u>Business-Type Activities</u>			<u>Percentage of Personal Income</u>	<u>Per Capita</u>
	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>Tourdock Interlocal Agreement</u>	<u>Capital Leases</u>	<u>Revenue Bonds</u>	<u>Public Works Trust Fund Loans</u>	<u>Total Government</u>		
2003	\$ 26,820,000	\$ 30,000	\$130,068	\$ -	\$ 6,580,000	\$ 5,680,030	\$ 39,240,098	1.92%	860
2004	\$ 25,000,000	\$ 15,000	\$130,068	\$ -	\$ 6,215,000	\$ 5,437,794	\$ 36,797,862	1.62%	803
2005	\$ 23,150,000	\$ 10,000	\$ -	\$ -	\$ 5,635,000	\$ 5,423,610	\$ 34,218,610	1.53%	748
2006	\$ 21,235,000	\$ 5,000	\$ -	\$ -	\$ 5,040,000	\$ 5,137,851	\$ 31,417,851	1.26%	666
2007	\$ 17,435,000	\$ -	\$ -	\$ -	\$ 4,425,000	\$ 4,523,186	\$ 26,383,186	0.96%	551
2008	\$ 15,345,000	\$ -	\$ -	\$ -	\$ 3,785,000	\$ 3,908,523	\$ 23,038,523	0.82%	476
2009	\$ 13,155,000	\$ -	\$ -	\$ -	\$ 3,120,000	\$ 3,293,856	\$ 19,568,856	0.70%	399
2010	\$ 47,090,000	\$ -	\$ -	\$ -	\$ 2,430,000	\$ 2,906,678	\$ 52,426,678	2.11%	1075
2011	\$ 49,255,000	\$ -	\$ -	\$ -	\$ 1,700,000	\$ 2,519,500	\$ 53,474,500	1.26%	664
2012	\$ 46,709,687	\$ -	\$ -	\$ -	\$ 935,000	\$ 2,132,322	\$ 49,777,009	1.10%	611

Source: City of Kirkland Finance and Administration

Schedule 12

City of Kirkland

Ratio of General Bonded Debt Outstanding

Last Ten Fiscal Years - Unaudited

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Less: Amounts Available in Debt Service Fund</u>	<u>Total</u>	<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
2003	\$ 26,820,000	\$ 595,670	\$ 26,224,330	0.38%	\$ 587.77
2004	\$ 25,000,000	\$ 568,667	\$ 24,431,333	0.34%	\$ 545.85
2005	\$ 23,150,000	\$ 545,234	\$ 22,604,766	0.29%	\$ 506.12
2006	\$ 21,235,000	\$ 558,526	\$ 20,676,474	0.24%	\$ 450.08
2007	\$ 17,435,000	\$ 501,315	\$ 16,933,685	0.18%	\$ 364.06
2008	\$ 15,345,000	\$ 481,535	\$ 14,863,465	0.12%	\$ 316.98
2009	\$ 13,155,000	\$ 472,456	\$ 12,682,544	0.12%	\$ 268.41
2010	\$ 47,090,000	\$ 328,813	\$ 46,761,187	0.44%	\$ 965.22
2011	\$ 49,255,000	\$ 315,270	\$ 48,939,730	0.48%	\$ 611.83
2012	\$ 46,709,687	\$ 314,857	\$ 46,394,830	0.33%	\$ 573.27

Sources: City of Kirkland Finance and Administration; King County Assessor

Schedule 13

City of Kirkland

Direct and Overlapping Governmental Activities Debt

As of December 31, 2012 - Unaudited

<u>Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Estimated Percentage Applicable¹</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping Debt			
King County	\$ 845,717,000	4.55%	\$ 38,480,124
Lake Washington School District #414	491,747,573	41.92%	206,140,583
Port of Seattle	312,005,000	3.26%	10,171,363
Bellevue School District #405	525,858,031	0.05%	262,929
Hospital District #2	205,804,142	29.45%	60,609,320
Library	136,748,287	7.32%	<u>10,009,975</u>
Total Overlapping Debt			\$ 325,674,294
Direct Debt			
City of Kirkland ²	\$ 46,709,687	100.00%	<u>\$ 46,709,687</u>
Total Direct and Overlapping Debt			<u>\$ 372,383,981</u>

¹ Estimated percentage applicable determined by the ratio of taxable property assessed valuation in overlapping unit to property valuation subject to taxation in the City of Kirkland.

² General obligations bonded debt excluding special assessment and revenue supported bonded debt.

Schedule 14
City of Kirkland
 Legal Debt Margin Information
 Last Ten Fiscal Years - Unaudited

	Fiscal Year									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt Limit	\$ 534,988,614	\$ 558,485,774	\$ 592,229,543	\$ 660,219,656	\$ 739,893,011	\$ 986,804,445	\$ 848,415,206	\$ 803,312,424	\$ 772,394,589	\$ 1,074,592,668
Total Net Debt Applicable to Limit	<u>26,236,750</u>	<u>24,436,756</u>	<u>22,615,509</u>	<u>20,678,180</u>	<u>16,937,097</u>	<u>14,863,464</u>	<u>12,682,544</u>	<u>46,761,187</u>	<u>48,939,730</u>	<u>46,394,830</u>
Legal Debt Margin	<u>\$ 508,751,864</u>	<u>\$ 534,049,018</u>	<u>\$ 569,614,034</u>	<u>\$ 639,541,476</u>	<u>\$ 722,955,914</u>	<u>\$ 971,940,981</u>	<u>\$ 835,732,662</u>	<u>\$ 756,551,237</u>	<u>\$ 723,454,859</u>	<u>\$ 1,028,197,838</u>
Total Net Debt Applicable to Limit as a Percentage of Debt Limit	4.90%	4.38%	3.82%	3.13%	2.29%	1.51%	1.49%	5.82%	6.34%	4.32%

Legal Debt Margin Calculation for Fiscal Year 2012

Total Assessed Value	<u>14,327,902,235</u>
Debt Limit (7.5% of Total Assessed Value)	<u>1,074,592,668</u>
Debt Applicable to Limit:	
General Obligation Bonds	46,709,687
Less Cash on Hand for Debt Redemption	<u>(314,857)</u>
Total Net Debt Applicable to Limit	<u>46,394,830</u>
Legal Debt Margin	<u>\$ 1,028,197,838</u>

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation. This 7.5% debt capacity is allocated evenly among general purposes, open space/park/capital facilities and utilities. The City Council has authority to issue bonds without voter approval for a combined total of up to 1.5% of the City's assessed valuation.

Schedule 15

City of Kirkland

Pledged-Revenue Coverage

Last Ten Fiscal Years - Unaudited

Fiscal Year	Water/Sewer Revenue Bonds						Special Assessment Bonds			
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Special Assessment Collections	Debt Service		Coverage
			Principal	Interest			Principal	Interest		
2003	\$ 15,112,520	\$ 11,814,586	\$ 3,297,934	\$ 495,000	\$ 274,610	4.29	\$ 19,963	\$ 10,000	\$ 2,045	1.66
2004	\$ 13,573,647	\$ 10,504,460	\$ 3,069,187	\$ 580,000	\$ 244,756	3.72	\$ 11,134	\$ 15,000	\$ 1,545	0.67
2005	\$ 13,276,138	\$ 11,397,440	\$ 1,878,698	\$ 595,000	\$ 225,385	2.29	\$ 5,064	\$ 10,000	\$ 780	0.47
2006 ¹	\$ 17,509,308	\$ 12,168,914	\$ 5,340,394	\$ 615,000	\$ 202,908	6.53	\$ 7,881	\$ 5,000	\$ 520	1.43
2007	\$ 16,578,496	\$ 12,741,287	\$ 3,837,209	\$ 640,000	\$ 178,173	4.69	\$ 4,544	\$ -	\$ -	-
2008	\$ 17,559,865	\$ 13,220,756	\$ 4,339,109	\$ 665,000	\$ 152,073	5.31	\$ -	\$ -	\$ -	-
2009	\$ 18,391,063	\$ 14,318,592	\$ 4,072,471	\$ 690,000	\$ 124,185	5.00	\$ -	\$ -	\$ -	-
2010	\$ 18,271,596	\$ 14,579,329	\$ 3,692,267	\$ 730,000	\$ 92,275	4.49	\$ -	\$ -	\$ -	-
2011	\$ 19,593,206	\$ 16,287,970	\$ 3,305,236	\$ 765,000	\$ 56,130	4.03	\$ -	\$ -	\$ -	-
2012	\$ 20,966,391	\$ 16,940,958	\$ 4,025,433	\$ 460,000	\$ 28,200	8.25	\$ -	\$ -	\$ -	-

¹2006 presentation was modified in 2007 to reflect a prior period adjustment.

Schedule 16

City of Kirkland

Demographic and Economic Statistics

Last Ten Fiscal Years - Unaudited

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income (thousands of dollars)</u>	<u>Per Capita Personal Income</u>	<u>King County Unemployment Rate</u>
2003	45,630	\$ 2,039,844	\$ 44,704	6.20%
2004	45,800	\$ 2,268,611	\$ 49,533	5.10%
2005	45,740	\$ 2,231,609	\$ 48,789	4.60%
2006	47,180	\$ 2,484,263	\$ 52,655	4.10%
2007	47,890	\$ 2,749,317	\$ 57,409	3.70%
2008	48,410	\$ 2,813,347	\$ 58,115	4.33%
2009	49,010	\$ 2,788,865	\$ 56,904	8.50%
2010	48,787	\$ 2,483,502	\$ 50,905	8.80%
2011	80,505	\$ 4,330,525	\$ 53,792	8.10%
2012	81,480	\$ 4,525,857	\$ 55,546	7.00%

Sources: Washington State Financial Management; United States Department of Labor

Schedule 17

City of Kirkland

Property Values and Construction

Last Ten Fiscal Years - Unaudited

<u>Fiscal Year</u>	<u>Commercial Construction</u>		<u>Residential Construction</u>		<u>Multi-Family Construction</u>		<u>Mixed Use Construction¹</u>		<u>Total Assessed Property Valuation</u>
	<u>Number of Units</u>	<u>Valuation</u>	<u>Number of Units</u>	<u>Valuation</u>	<u>Number of Units</u>	<u>Valuation</u>	<u>Number of Units</u>	<u>Valuation</u>	
2003	3	\$ 6,725,700	165	\$ 53,479,192	27	\$ 4,239,774	0	\$ -	\$ 7,133,181,521
2004	11	\$ 46,413,334	192	\$ 59,285,927	263	\$ 26,658,812	0	\$ -	\$ 7,446,476,981
2005	10	\$ 36,336,205	229	\$ 77,808,567	277	\$ 31,070,574	0	\$ -	\$ 7,896,393,909
2006	4	\$ 6,440,429	237	\$ 86,466,535	160	\$ 22,000,720	0	\$ -	\$ 8,802,928,753
2007	8	\$ 36,632,094	229	\$ 85,599,108	129	\$ 7,229,000	2	\$ 16,710,654	\$ 9,865,240,144
2008	4	\$ 8,115,000	128	\$ 44,004,859	241	\$ -	2	\$ 27,792,550	\$ 13,157,392,603
2009	3	\$ 17,740,116	44	\$ 17,683,428	81	\$ 2,384,000	3	\$ 31,521,957	\$ 11,312,202,748
2010	2	\$ 101,000	71	\$ 25,993,732	61	\$ 9,200,000	0	\$ -	\$ 10,710,832,316
2011	4	\$ 3,093,000	94	\$ 34,502,303	9	\$ 1,737,948	0	\$ -	\$ 10,298,594,518
2012	4	\$ 43,098,113	92	\$ 52,742,439	124	\$ 2,200,000	1	\$ 10,500,000	\$ 14,327,902,235

¹Prior to 2007, Mixed Use Construction included with Multi-Family Construction. In 2008, Multi-Family Construction valuation included with Mixed Use Construction valuation.

Schedule 18

City of Kirkland

Principal Employers

Current Year and Nine Years Ago - Unaudited

<u>Employer</u>	<u>2012</u>			<u>2003</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Evergreen Healthcare	2,603	1	7.97%	2,188	1	7.54%
Lake Washington School District	976	2	2.99%	641	2	2.21%
Google, Inc.	658	3	2.02%			
City of Kirkland	575	4	1.76%	421	3	1.45%
Kenworth Truck Co.	439	5	1.34%	386	5	1.33%
Costco Wholesale	302	6	0.93%	375	6	1.29%
Evergreen Pharmaceutical	269	7	0.82%			
Isoftstone, Inc.	265	8	0.81%			
IBM Corporation	256	9	0.78%			
Waste Management of Washington	250	10	0.77%			
Lake Washington Technical College				420	4	1.45%
Univar				268	7	0.92%
Rosetta Inpharmatics				264	8	0.91%
Netmanage, Inc.				260	9	0.90%
Digeo				215	10	0.74%
Total	<u>6,593</u>		<u>20.20%</u>	<u>5,438</u>		<u>18.75%</u>

Schedule 19

City of Kirkland

Full-time Equivalent City Government Employees by Function/Program

Last Ten Fiscal Years - Unaudited

<u>Function/Program</u>	<u>Full-time Equivalent Employees as of December 31</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government										
City Council	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
City Manager's Office	6.50	6.89	6.89	19.48	21.24	21.54	21.54	21.90	30.40	30.90
City Attorney's Office	3.50	3.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Human Resources	-	5.56	6.68	7.10	7.10	7.10	7.10	8.10	8.80	8.70
Parks and Community Services	32.15	31.15	32.28	32.28	32.78	36.53	36.53	33.03	32.25	31.00
Public Works	26.39	26.39	25.65	26.65	26.95	27.55	27.55	23.30	26.15	25.35
Finance and Administration	48.47	41.41	41.29	28.45	29.50	28.80	29.05	30.40	32.65	32.80
Planning and Community Development	21.62	21.62	21.62	22.56	23.56	22.06	21.06	19.95	24.25	24.25
Police	96.00	96.50	99.50	105.50	110.50	109.00	95.50	121.50	135.25	137.50
Fire and Building	96.53	96.53	96.53	100.53	109.53	113.28	112.28	107.73	120.78	122.28
Other General Government Operating Funds										
Lodging Tax Fund	-	0.11	0.11	0.11	0.25	0.90	0.90	0.60	0.60	0.60
Street Operating	14.67	15.45	15.40	15.40	15.40	16.90	16.10	15.50	22.50	20.65
Parks Maintenance	4.50	6.50	7.50	7.50	7.50	7.50	7.50	7.50	10.25	10.25
Recreation Revolving	3.25	3.25	3.25	3.25	3.25	-	-	-	-	-
Facilities Maintenance	6.50	5.90	5.90	5.90	5.90	5.90	5.95	5.85	6.35	6.35
Equipment Rental	5.50	5.50	5.50	5.50	6.00	6.00	6.40	6.30	7.30	7.30
Information Technology	14.00	14.00	15.00	18.25	18.75	19.50	20.00	19.25	23.75	24.50
Utility Funds										
Water/Sewer Operating	19.15	20.10	20.31	20.31	20.71	21.21	21.06	21.21	20.31	19.81
Surface Water Management	12.42	13.16	13.69	15.19	15.39	17.24	17.74	18.49	26.04	27.59
Solid Waste	-	-	1.05	1.05	1.65	1.70	1.70	2.00	3.30	2.80
Total	<u>418.15</u>	<u>420.02</u>	<u>429.15</u>	<u>446.01</u>	<u>466.96</u>	<u>473.71</u>	<u>458.96</u>	<u>473.61</u>	<u>541.93</u>	<u>543.63</u>

Source: City of Kirkland Finance and Administration

Schedule 20

City of Kirkland

Operating Indicators by Function/Program

Last Ten Fiscal Years - Unaudited

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Security of Persons and Property - Police										
Calls for Service	57,026	53,238	43,120	53,215	56,986	58,499	58,245	62,677	71,729	74,317
Security of Persons and Property - Fire										
Calls for Service (aid and fire)	7,175	7,335	7,195	8,109	7,255	7,256	7,320	7,098	7,286	7,982
Average EMS Reponse (minutes)	5:09	5:11	5:17	5:21	5:30	5:27	5:20	5:17	5:32	5:25
Average Fire Response (minutes)	5:53	5:58	5:53	6:02	5:59	5:47	5:46	5:41	5:42	5:44
Culture and Recreation										
Adult Program Registrations	4,546	3,868	4,621	4,484	4,675	3,894	3,234	2,877	3,508	3,675
Preschool Program Registrations	2,654	3,131	3,436	3,520	3,467	3,516	3,773	4,005	4,339	3,973
Youth Program Registrations	3,924	4,180	4,553	4,639	4,526	4,610	4,505	4,477	4,272	5,047
Teen Program Registrations	155	210	134	140	93	130	88	144	113	134
Parent/Child Program Registrations	167	180	348	484	392	372	222	199	199	1,608
Senior Program Registrations	4,090	3,777	5,010	4,858	4,833	4,065	4,104	3,441	3,509	4,120
Physical Environment										
Street Hot Patching (hours)	4,632	4,924	5,261	4,127	4,469	4,650	3,819	3,354	3,422	3,856
Street Signal Maintenance (hours)	2,356	2,645	2,976	2,685	2,546	2,723	2,712	2,700	3,717	4,376
Street Sweeping (hours)	1,931	1,824	2,016	2,177	2,001	1,959	1,971	1,518	2,340	2,883
Number of Sewer Customers	9,103	9,276	9,420	9,580	9,771	9,923	10,004	10,080	10,154	10,238
Number of Water Customers	11,376	11,452	11,534	11,648	11,849	11,955	12,056	12,104	12,153	12,224
Average Daily Water Consumption (million gallons)	5.21	6.20	5.72	6.60	5.80	6.30	5.90	5.46	5.40	5.60

Sources: City of Kirkland Police, Fire, Public Works, Parks and Community Services

Schedule 21

City of Kirkland

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years - Unaudited

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Security of Persons and Property - Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Officers per 12 hr shift	6.4	7.1	6.5	6.6	6.8	6.5	6.4	7.0	10.1	10.5
Security of Persons and Property - Fire										
Stations (full-time staffed)	5	5	5	5	6	5	5	5	5	5
Stations (part-time reserve staffed)	1	1	1	1	1	1	1	1	1	0
Culture and Recreation										
Parks Acreage	480	512	525	510	515	517	517	518	544	556
Parks (developed)	32	32	32	33	33	33	32	32	34	35
Parks (undeveloped)	5	5	5	7	7	7	8	8	10	10
Waterfront Footage	13,200	13,200	13,200	13,200	13,200	13,270	13,270	13,270	13,270	13,270
Miles of Improved Park Trails	4.6	5.0	5.0	5.5	5.5	5.5	5.8	5.8	6.3	6.5
Miles of Unimproved Park Trails	4.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0	5.0
Community Centers	1	1	1	2	2	2	2	2	2	2
Physical Environment										
Water Mains (miles)	162	163	166	166	166	167	169	169	170	170
Sanitary Sewers (miles)	100	115	116	116	117	119	119	120	121	122
Streets (miles)	146	148	149	149	149	148	147	147	249	250
Sidewalks (miles)	118	134	134	136	138	139	140	141	277 ¹	237

¹ Due to annexation, 2011 number an estimate. 2012 based on real mapping.